2014 ANNUAL REPORT

RISK MANAGED VALUE CREATION

ARC RESOURCES LTD.

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ARC AT A GLANCE

We are a Canadian oil and gas producer committed to delivering strong operational and financial performance and upholding values of operational excellence and responsible development.

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

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

OVER $5 BILLION IN DIVIDENDS PAID TO SHAREHOLDERS SINCE INCEPTION

OVER 112,400 BOE PER DAY OF PRODUCTION
2014 full year average

600 EMPLOYEES ACROSS FOUR PROVINCES

673 MMBOE OF PROVED PLUS PROBABLE RESERVES

$1.1 BILLION 2014 FUNDS FROM OPERATIONS

$9 BILLION ENTERPRISE VALUE

SOCIALLY RESPONSIBLE OPERATOR

COMMITTED & EXPERIENCED LEADERSHIP TEAM

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Twelve Months Ended December 31
Cdn$ millions, except per share and boe amounts

FINANCIAL	**2014**	**2013**	**2012**
Funds from operations (1)	**1,124.0**	861.8	719.8
Per share (2)	**3.54**	2.76	2.42
Net income	**380.8**	240.7	139.2
Per share (2)	**1.20**	0.77	0.47
Operating income (3)	**390.3**	224.9	163.1
Per share (2)	**1.23**	0.72	0.55
Dividends	**380.2**	374.0	357.4
Per share (2)	**1.20**	1.20	1.20
Capital expenditures, before land and net property acquisitions (dispositions)	**945.5**	859.9	598.5
Total Capital expenditures, including land and net property acquisitions (dispositions)	**1,042**	820.8	608.0
Net debt outstanding (4)	**1,255.9**	1,011.5	745.6
Shares outstanding, weighted average diluted	**317.2**	311.9	297.2
Shares outstanding, end of period	**319.4**	314.1	308.9
OPERATING			
Production			
Crude oil (bbl/d)	**36,525**	32,784	31,454
Condensate (bbl/d)	**3,667**	2,251	2,217
Natural gas (mmcf/d)	**406.1**	349.4	342.9
NGLs (bbl/d)	**4,518**	2,811	2,728
Total (boe/d) (5)	**112,387**	96,087	93,546
Average realized prices, prior to hedging			
Crude oil ($/bbl)	**90.64**	88.90	82.03
Condensate ($/bbl)	**93.81**	94.13	92.63
Natural gas ($/mcf)	**4.76**	3.45	2.62
NGLs ($/bbl)	**39.45**	36.25	38.11
Oil equivalent ($/boe) (5)	**51.31**	46.15	40.50
Operating netback ($/boe)			
Commodity and other sales	**51.38**	46.31	40.58
Transportation expenses	**(2.23)**	(1.72)	(1.29)
Royalties	**(7.26)**	(6.36)	(5.72)
Operating expenses	**(8.88)**	(9.66)	(9.40)
Netback before hedging	**33.01**	28.57	24.17
Realized hedging gain (loss) (6)	**(0.65)**	0.45	1.87
Netback after hedging	**32.36**	29.02	26.04
RESERVES (company gross) (7)			
Proved plus probable reserves			
Crude oil and NGL (mbbl)	**192,489**	194,064	185,548
Natural gas (bcf)	**2,882**	2,639	2,528
Total (mboe)	**672,748**	633,864	606,982
TRADING STATISTICS (8)			
High price	**33.68**	29.95	26.25
Low price	**22.70**	23.12	18.36
Close price	**25.16**	29.57	24.44
Average daily volume (thousands)	**1,344**	1,064	1,356

(1) Funds from operations does not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP"). See "Additional GAAP Measures" in the MD&A for the years ended December 31, 2014 and 2013.
(2) Per share amounts (with the exception of dividends) are based on weighted average diluted shares.
(3) Operating income does not have a standardized meaning under GAAP. See "Non-GAAP Measures" in the MD&A for the years ended December 31, 2014 and 2013.
(4) Net debt does not have a standardized meaning under GAAP. See "Additional GAAP Measures" in the MD&A for the years ended December 31, 2014 and 2013.
(5) In accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("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) Includes realized cash gains and losses on commodity risk management contracts, plus a reversal for unrealized gains and losses on risk management contracts that relate to current year production that have been recognized in netback calculations in prior quarters.
(7) Company gross reserves are gross interest prior to deduction of royalty burdens and without including any royalty interest.
(8) Trading prices are stated in Canadian dollars and based on intra-day trading.

OUR OPERATIONS

ARC has a balanced portfolio of crude oil, natural gas and natural gas liquids assets, providing optionality for value creation through all commodity price cycles.

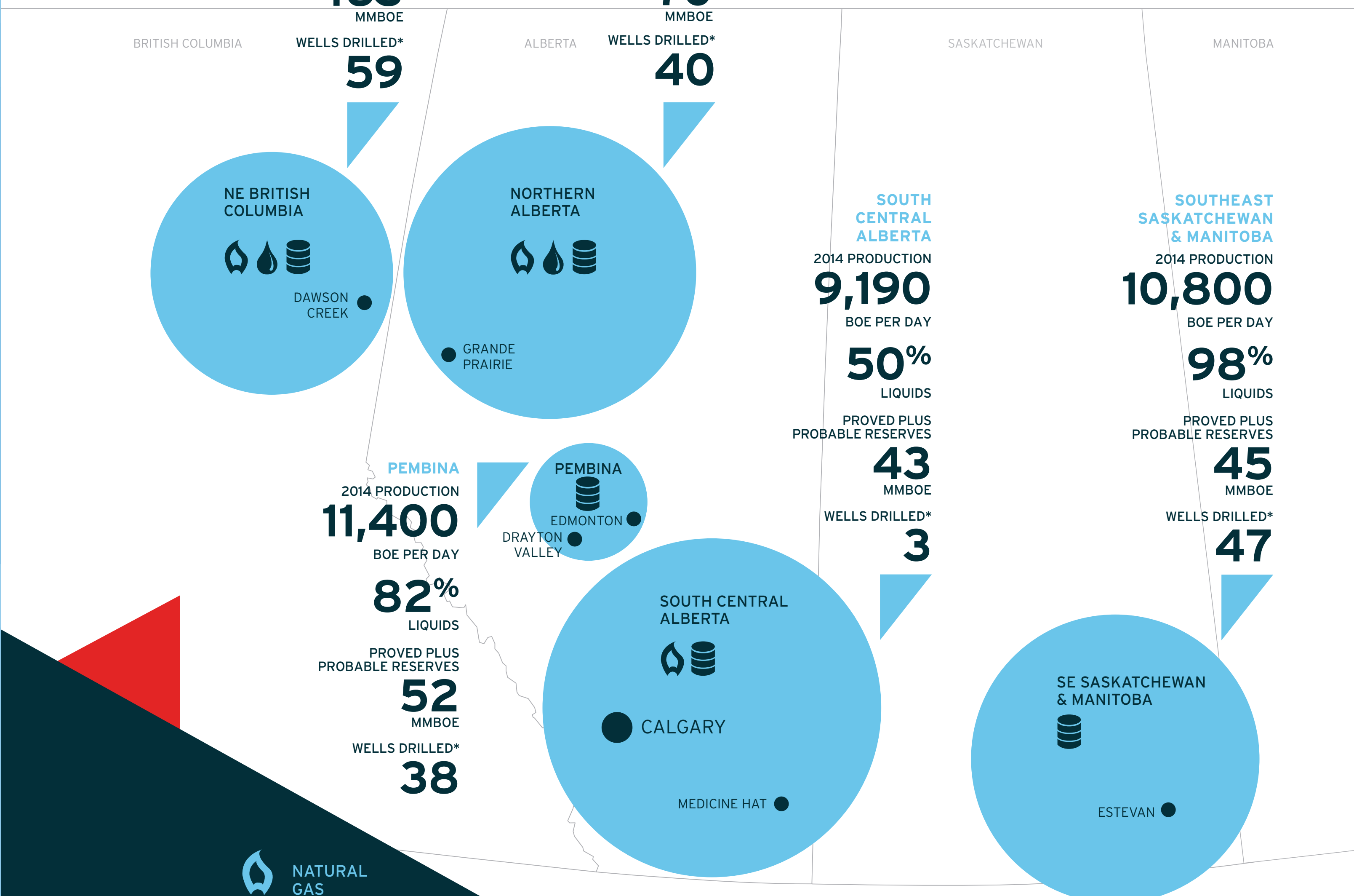
NE BRITISH COLUMBIA
2014 PRODUCTION
57,700
BOE PER DAY
14%
LIQUIDS
PROVED PLUS PROBABLE RESERVES
463
MMBOE
WELLS DRILLED*
59

NORTHERN ALBERTA
2014 PRODUCTION
23,300
BOE PER DAY
50%
LIQUIDS
PROVED PLUS PROBABLE RESERVES
70
MMBOE
WELLS DRILLED*
40

PEMBINA
2014 PRODUCTION
11,400
BOE PER DAY
82%
LIQUIDS
PROVED PLUS PROBABLE RESERVES
52
MMBOE
WELLS DRILLED*
38

SOUTH CENTRAL ALBERTA
2014 PRODUCTION
9,190
BOE PER DAY
50%
LIQUIDS
PROVED PLUS PROBABLE RESERVES
43
MMBOE
WELLS DRILLED*
3

SOUTHEAST SASKATCHEWAN & MANITOBA
2014 PRODUCTION
10,800
BOE PER DAY
98%
LIQUIDS
PROVED PLUS PROBABLE RESERVES
45
MMBOE
WELLS DRILLED*
47



NATURAL GAS

LIQUIDS-RICH GAS

OIL

*Gross operated wells drilled

MESSAGE TO SHAREHOLDERS

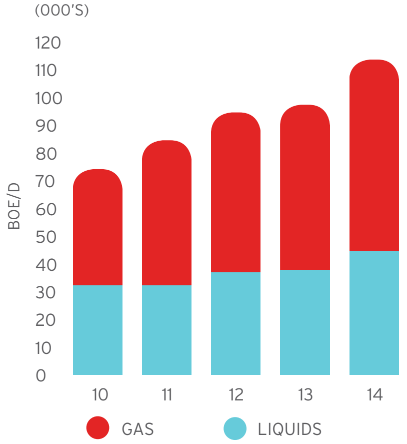
MYRON M. STADNYK
President & Chief Executive Officer

FOR ARC, 2014 WAS AN OUTSTANDING YEAR. OUR BUSINESS DELIVERED EXCEPTIONAL OPERATIONAL AND FINANCIAL RESULTS, WITH A CONTINUED FOCUS ON SAFETY PERFORMANCE. DURING THE YEAR WE PROFITABLY GREW PRODUCTION 17 PER CENT AND REPLACED 210 PER CENT OF OUR PRODUCED RESERVES. NOTABLY, ARC SURPASSED THE $5 BILLION MARK OF DIVIDENDS PAID TO SHAREHOLDERS SINCE OUR INCEPTION.

The foundations of our success are our proven strategy of Risk Managed Value Creation and our exceptional team of experienced professionals to execute this strategy. We confidently execute ambitious projects that create lasting value, while managing risk. The dividend is a fundamental component of our business strategy as it allows us to deliver returns to shareholders when the business environment does not support growth, and enforces the capital discipline to pursue growth only when it is profitable. We have managed a dividend paying business for 18 years and we remain fully committed to the principles of paying the dividend. In 2014, powered by strong commodity prices we controlled our pace of development, managed risk and continued to build our business for the long-term. As a result of our discipline we achieved exceptional growth and preserved our balance sheet strength – putting ARC in a healthy position as we enter 2015.

IN THE PAST FIVE YEARS ARC HAS GROWN PRODUCTION MORE THAN
75%

PRODUCTION GROWTH
2010 – 2014
(000'S)



OPERATIONAL PERFORMANCE

2014 was a year characterized by profitable growth and the application of new technologies. During the year we executed a capital program of $945 million, unlocking value across our operations and achieving record annual average production of 112,400 boe per day. Production gains were a significant achievement, especially given the divestment of 2,400 boe per day of non-strategic production in the second quarter of the year. We added significant reserves increasing proved plus probable reserves by six per cent to a total of 673 million boe. For the seventh consecutive year we replaced over 200 per cent of total production through the drill bit at low finding and development costs. Running our business as a low cost operator is core to our strategy and a tenet we follow in all commodity price cycles. In 2014, ARC's operating costs continued to trend down decreasing eight per cent year-over-year to average $8.88 per boe. The decrease in operating costs is largely the result of a greater portion of total production coming from our low cost Montney business. During the year ARC completed $134 million of land purchases and "tuck-in" acquisitions in key development areas. As we high grade our portfolio and bolster our position in key areas, we move towards a more focused asset base, allowing us to improve operational efficiencies as infrastructure, technology and expertise are leveraged across properties.

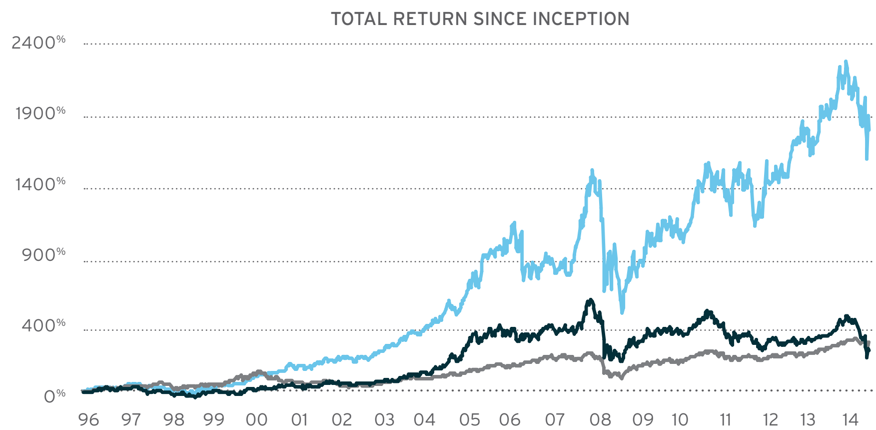
Our Montney assets were the centerpiece of 2014 development, leading the way in production and reserves growth. At Tower, the application of new completions techniques involving slickwater fracs with tighter inter-frac spacing and more tonnage per frac led to some of the best performing oil wells in western Canada. As we continue to develop the Montney, we are applying the learnings from Tower at other assets. The Sunrise property was also an important focus in 2014. Sunrise is an extremely attractive property with a significant natural gas resource base, low capital and operating costs and proven production from four layers of the Montney. As a means to create value by managing low operating costs and increasing operational efficiencies, ARC aims to own and operate its own facilities. To support the development of the large resource at Sunrise, ARC began construction of a 60 mmcf per day gas plant at Sunrise in late 2014. Construction of the plant is progressing on-time and on-budget and is expected to be commissioned in late 2015.

FINANCIAL PERFORMANCE

Production growth and the relative strength in commodity prices for the first three quarters of 2014 contributed to a year of strong financial performance. ARC's full year funds from operations increased 30 per cent compared to 2013 levels, to a record $1,124 million. We maintained our monthly dividend at $0.10 per share, paying over $380 million to shareholders in the year. Our balance sheet remains strong and we continue to target low debt levels within the range of 1.0 to 1.5 times net debt to annualized funds from operations. We closed the year with total available credit capacity of $2.2 billion with significant undrawn capacity of approximately $915 million. Our robust hedging program, which limits exposure to commodity price volatility and protects cash flow, partially offset the effect of the steep decline in crude oil prices in the fourth quarter of the year. At the time of writing, we are two months into 2015 and crude oil prices have remained weak. Further, commodity markets are expected to remain volatile through the remainder of the year. As a response to the uncertainty in the market, in January 2015 we completed a bought deal financing for a total of $386 million net to ARC. The proceeds will be used to temporarily reduce bank indebtedness, increase working capital and fund ongoing capital expenditures that create long-term value; particularly in our Montney development at Sunrise, Tower and Dawson.

OUR PERFORMANCE

ARC HAS CONSISTENTLY OUTPERFORMED THE S&P TSX COMPOSITE INDEX AND THE S&P TSX COMPOSITE OIL AND GAS EXPLORATION AND PRODUCTION INDEX.



MONTNEY OPPORTUNITY

The Montney competes against the top resource plays in the world, providing exposure to natural gas, natural gas liquids and oil production at robust economics. The area has been the key growth driver for ARC for almost a decade, and through time and technology we continue to learn about this amazing resource and better understand the massive opportunity it holds. Today, ARC is one of the largest land owners in the area with almost 1,000 net Montney sections. We continued to strategically grow our land base in the play in 2014, adding 120 net Montney sections through land purchases and small "tuck-in" acquisitions. An independent resources evaluation of ARC's northeast British Columbia Montney conducted in 2014 realized significant year-over-year increases to ARC's resource base. The evaluation showed that the natural gas TPIIP[1] increased 22 per cent from 2013 to reach 67.4 Tcf and the crude oil TPIIP[1] increased seven per cent from 2013 to 2.3 billion barrels. The increases were primarily the result of land acquisitions and drilling activity during the year. The positive evaluation reaffirms the Montney's significant long-term growth opportunities and considerable potential reserves that extend well beyond existing booked reserves and even current estimates of the economic contingent resource.[2, 3]

In 2014, we advanced our understanding of multilayer development in the Montney. At our Sunrise property, which we began piloting in 2011, we are currently producing from four separate layers of the Montney. Additionally, we are conducting six pilot projects at other areas in the Montney to explore the potential for similar multilayer development opportunities. The ability to produce from multiple layers not only unlocks additional reserves and improves operational efficiencies, but in some areas there are indications of higher liquids production from different horizons. Early indications suggest this may be the case at Dawson, where in the fourth quarter of 2014 we completed two liquids-rich natural gas wells in the Lower Montney to assess liquids content. We will continue to evaluate the potential for commerciality of the pilot projects before moving to full scale development.

1. Total Petroleum Initially-In-Place ("TPIIP") is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
2. Economic Contingent Resources are those contingent resources which are currently economically recoverable.
3. A full discussion of ARC's reserves and economic contingent resource is contained in the Annual Information Form available at *www.sedar.com*

LOOKING AHEAD TO 2015

In response to the recent deterioration in commodity prices, ARC has announced a reduction of our original capital budget from $875 million to $750 million. With the significant drop in activity, we anticipate realized cost saving from our service providers, and expect to spend considerably less than the $750 million budget. In 2015, ARC will proceed with strategic long-term Montney infrastructure projects, such as the Sunrise gas plant, a new 90 mmcf per day gas plant and liquids handling facility at Dawson and an oil battery expansion at Tower. These investments will continue to build our business for the long-term. Further, we will continue to manage risk, maintain financial flexibility and pursue opportunities that will create real value for our shareholders.

STRENGTH OF OUR CULTURE

All of ARC's achievements are the result of the outstanding work and dedication of our people. The men and women at ARC bring passion and energy to their work every day – not only making us a top performer but also making ARC a great place to work. A commitment to continuous learning and collaboration is deeply embedded in our culture. It has enabled us to achieve great things, and will ensure we will continue to be successful.

We strive to be great in every area of our business, and part of this vision means doing our bit to help build strong, healthy and sustainable communities. Health and safety is always our number one priority. To support this we have a culture of open communications and the programs, tools and resources in place to help workers make responsible decisions. One injury is too many, and in 2015 we will continue to improve our systems and communications with the goal of zero lost time incidents. ARC has been recognized for its environmental leadership. We seek solutions to reduce our impact on the environment, such as building our operations with low-emissions and high efficiency technology and have implemented an industry leading climate change strategy. We regularly engage stakeholders in dialogue around our business strategy and development plans, and we give back to our communities through volunteerism and monetary support. In 2014, ARC donated over $2.1 million to charitable and not-for profit organizations. However, this number does not capture the thousands of volunteer hours our employees give each year. From Manitoba to British Columbia, our people are active and proud members of their communities.

The successes of 2014, and they were numerous, are now in the rear view mirror as we face new challenges in 2015. Today's market environment is in sharp contrast to that in which we operated in 2014. Now more than ever the strength of our strategy shines and reminds us that the foundations of this company were built to withstand headwinds. In 2014, we stayed true to our strategy and marched on with our sustainable growth plan. As a result of our prudent management we enter 2015 in an exceptionally strong position to weather the downturn in commodity prices. We are focused and committed to creating long-term value for our shareholders.

In conclusion, I would like thank all of ARC's employees for your hard work and dedication, the board of directors for your guidance and oversight, and our shareholders for your continued support.

Sincerely,

Myron M. Stadnyk
President & Chief Executive Officer

WE ARE PLEASED TO HAVE RECEIVED EXTERNAL VALIDATION FOR OUR EFFORTS IN 2014:

RANKED
1ST
AMONG OIL AND GAS COMPANIES IN CANADA FOR
"CONFIDENCE IN CORPORATE STRATEGY"
BY BRENDAN WOOD INTERNATIONAL
(DECEMBER 31, 2014)

7TH
CONSECUTIVE YEAR NAMED TO THE CANADA 200 CLIMATE DISCLOSURE LEADERSHIP INDEX

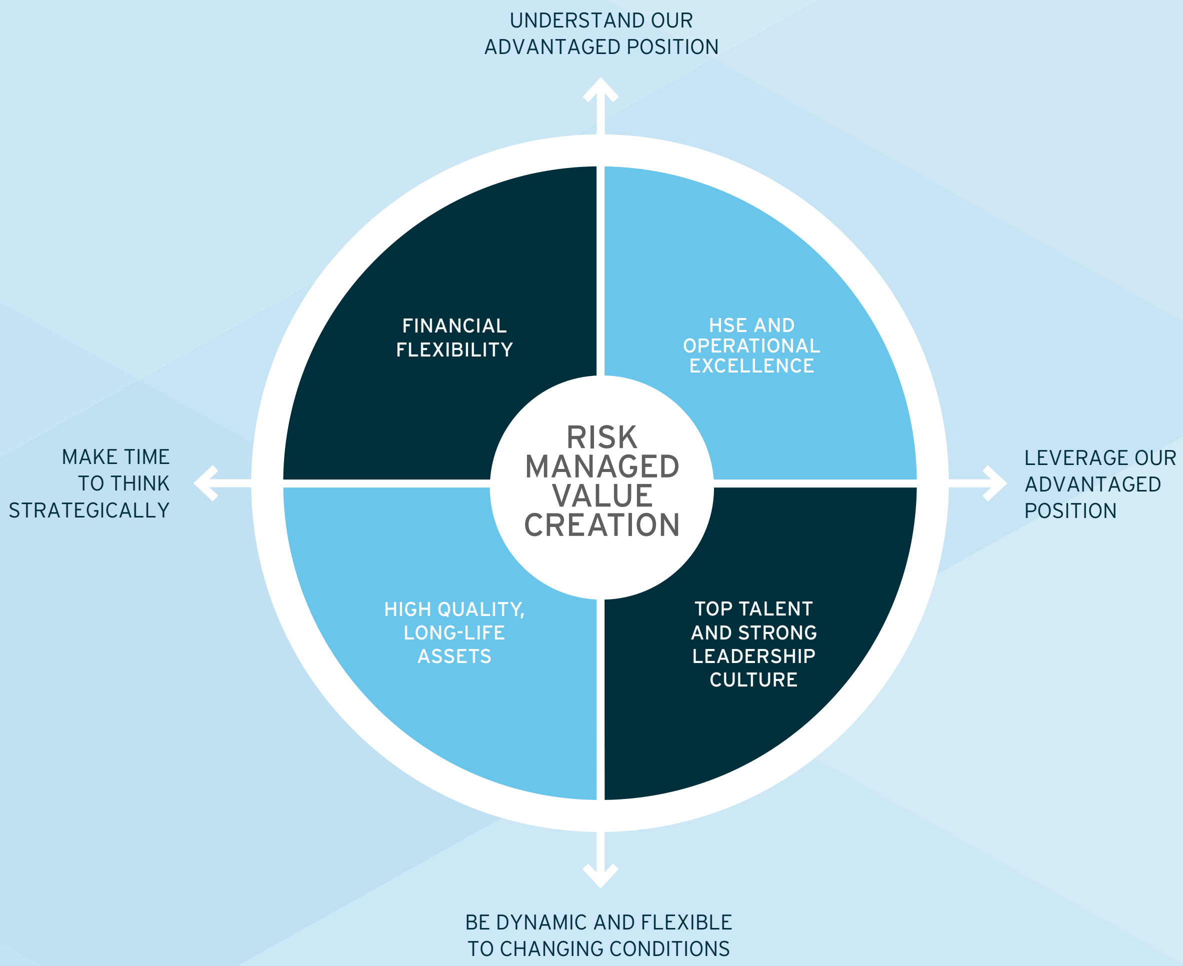
INCLUDED IN CORPORATE KNIGHTS RANKING OF
"FUTURE 40 MOST RESPONSIBLE LEADERS IN CANADA"

NAMED TO THE
JANTZI SOCIAL INDEX

RECEIVED
3
AWARDS FOR EXCELLENCE
IN INVESTOR RELATIONS PRACTICES FROM THE IR MAGAZINE CANADA AWARDS

OUR STRATEGY:
RISK MANAGED VALUE CREATION

ARC'S VISION IS TO BE A LEADING ENERGY PRODUCER AS MEASURED BY THE QUALITY OF ASSETS, MANAGEMENT EXPERTISE AND LONG-TERM RETURNS. THIS VISION IS REALIZED THROUGH OUR BUSINESS STRATEGY OF RISK MANAGED VALUE CREATION, WHICH IS UNDERPINNED BY THE FOUR PILLARS OF: HEALTH, SAFETY, ENVIRONMENT (HSE) AND OPERATIONAL EXCELLENCE; FINANCIAL FLEXIBILITY; HIGH QUALITY LONG-LIFE ASSETS; AND A TOP TALENT AND STRONG LEADERSHIP CULTURE.



RESPONSIBLE DEVELOPMENT

HEALTH AND SAFETY

Health and Safety is our top priority. Our goal of an injury-free work place is supported by a culture of safety that encourages open communication, provides ongoing training and skills development and engages with employees, contractors and service providers to identify improvements to our systems.

ARC'S COMMITMENT TO HEALTH AND SAFETY IS DEMONSTRATED BY THE FOLLOWING:

A DEDICATED HEALTH AND SAFETY TEAM MADE UP OF PROFESSIONALS IN OUR CALGARY OFFICE AND FIELD LOCATIONS

HEALTH AND SAFETY MANAGEMENT SYSTEM

DETAILED SAFETY TRAINING FOR ALL FRONT-LINE EMPLOYEES

CONTRACTOR AND SERVICE PROVIDER ELIGIBILITY REQUIREMENTS

REGULAR EMERGENCY RESPONSE TRAINING AND DRILLS

ENVIRONMENT

ARC's commitment to meeting high standards of environmental performance shapes our business every day. Environmental stewardship is a crucial component of achieving operational excellence and building a business that is sustainable and profitable for the long-term.

IN 2014, ARC DEMONSTRATED ITS COMMITMENT TO ENVIRONMENTAL STEWARDSHIP IN THE FOLLOWING WAYS:

FORMALIZATION OF A WATER MANAGEMENT STRATEGY FOR OUR NORTHEAST BRITISH COLUMBIA OPERATIONS

DESIGNING THE SUNRISE GAS PLANT AS A LOW EMISSIONS FACILITY

USE OF LOW EMISSIONS AND HIGH EFFICIENCY TECHNOLOGY TO REDUCE EMISSIONS AT ARC OPERATIONS

RECEIVED 21 RECLAMATION CERTIFICATES IN 2014 AND CURRENTLY HAS 602 SITES IN ACTIVE ABANDONMENT AND RECLAMATION

CONTINUED TO DEVELOP THE MONTNEY WITH MULTI-WELL PADS, MINIMIZING OUR SURFACE LAND FOOTPRINT

COMMUNITY INVESTMENT

Giving back to our communities is part of who we are at ARC. Creating lasting change and long-term results are two guiding principles that drive ARC to partner with organizations to provide multi-year commitments to fund special projects and initiatives. Through supporting programs dedicated to health and wellness, education, sports and arts and culture, we are able to contribute to the communities we are a part of. The spirit of giving at ARC far extends corporate initiatives as our employees support various organizations and causes through volunteer time and monetary support.

$2.1 MILLION DONATED IN 2014

For more information on ARC's Sustainability practices and performance please visit **WWW.ARCRESPONSIBILITY.COM**.

OPERATIONS REVIEW

ARC CONTINUES TO EXECUTE PROJECTS ACROSS ITS PORTFOLIO THAT ARE PROFITABLE TODAY AND CREATE VALUE FOR SHAREHOLDERS FOR YEARS TO COME.

In 2014, ARC carried out an ambitious yet disciplined capital program of

$945 MILLION

and profitably grew production

17 PER CENT YEAR-OVER-YEAR TO AVERAGE

112,400 BOE PER DAY.

Reserves were added through the drill bit at low finding costs and ARC continued to convert its large reserves and resource base into production and cash flow. While delivering tremendous growth in the year, ARC invested in long-term development projects that will set the stage for future growth and opportunity.

HERE ARE SOME OF THE WAYS ARC DELIVERED VALUE IN 2014:

ADVANCEMENTS IN FRAC TECHNOLOGY

TECHNOLOGY IS THE LIFELINE OF OUR BUSINESS, DRIVING EFFICIENCY AND PERFORMANCE IMPROVEMENTS ACROSS OUR OPERATIONS.

In 2014, ARC implemented new completions techniques in the Montney, which led to exceptional well performance. The introduction of longer lateral well lengths, tightened inter-frac spacing, optimized pumping rates and a move to slickwater fracs in many of our operating areas contributed to accessing more of the resource and greater efficiencies. Ultimately, this translates to improved type curves and better economics on both a well-by-well and play basis. Similarly, in the Pembina Cardium ARC continued to optimize waterflood projects, resulting in reduced gas-oil ratios and increasing recovery factors.

PROVING MULTILAYER MONTNEY DEVELOPMENT

IN 2014, ARC CONTINUED TO ADVANCE ITS UNDERSTANDING OF MULTILAYER MONTNEY DEVELOPMENT.

The ability to produce from multiple layers within the Montney formation is unlocking additional reserves, improving operational efficiencies and in certain areas providing access to higher liquids content from different horizons. At Sunrise, ARC is currently producing from four separate Montney layers. In practical terms, this means ARC's 24 net sections at Sunrise are equivalent to 96 net sections of single layer development. In addition to Sunrise, ARC is producing from multiple layers at Tower and Parkland, and has six pilots ongoing across the Montney. Lower Montney pilots at Dawson, Parkland and Pouce Coupe, and Upper Montney pilots at Septimus, East Attachie and West Attachie will help to determine commerciality of these assets.

INVESTMENT IN LONG-TERM INFRASTRUCTURE

ARC IS INVESTING IN LONG-TERM FACILITIES AND INFRASTRUCTURE IN THE MONTNEY TO SUPPORT ITS DEVELOPMENT PLANS AND THE MASSIVE RESOURCE POTENTIAL.

Owning and operating facilities allows ARC to set its own pace of development and provides greater control over operating costs and facility run-time. Following the commissioning of a new natural gas and liquids handling facility at Parkland/Tower in late 2013, ARC brought-on new production throughout 2014 to fill the facility. As the well performance at Tower has continued to outperform expectations, ARC is planning an expansion of an oil battery at Tower in 2015. The expansion will double oil handling capacity at the battery and facilitate continued development of the field. In the fall of 2014, ARC began construction of a 60 mmcf per day gas plant at Sunrise, which is planned to be on-stream by late 2015. Sunrise production is expected to double once the new facility is completed and filled to capacity. Given the significant drilling inventory at Dawson and the potential for higher liquids production with Lower Montney development, ARC plans to proceed with a new 90 mmcf per day gas processing and liquids handling facility. The new Dawson facility is expected to be on-stream in 2017.

Ensuring ARC is well connected to pipelines and that production moves to market at optimum prices is a high priority today and for the future. In 2014, ARC continued to work with third party providers to bring pipelines to our key development areas and entered into long-term contracts for take-away capacity to support future growth. Better pipeline connectivity simplifies marketing arrangements, increases efficiencies and will significantly reduce per boe transportation costs.

FOCUS ON COST MANAGEMENT

ARC'S CONTINUED EMPHASIS ON COST MANAGEMENT RESULTED IN LOW OPERATING COSTS OF $8.88 PER BOE IN 2014, AN EIGHT PER CENT DECREASE COMPARED TO 2013.

Operating costs have been consistently trending down as low cost Montney production makes up a greater percentage of total corporate production. ARC's business model is moving towards a more focused asset base. At year-end 2014, 70 per cent of ARC's total production and 77 per cent of total proved plus probable reserves were Montney based. The concentration of assets is expected to result in cost improvements and efficiency gains as infrastructure and expertise are leveraged across ARC's properties. To illustrate this point we can look to the divestment of shallow gas assets in southwest Saskatchewan in 2014. ARC divested of 1,800 wells, which produced 14 mmcf per day. The entire divested production can be replaced by three Sunrise Montney gas wells. By replacing this production with high rate Montney gas wells, ARC benefits from immediate cost savings and efficiency gains as similar production is derived from significantly fewer wells.

GROWING HIGH QUALITY LONG-LIFE RESERVES

FOR THE SEVENTH CONSECUTIVE YEAR ARC REPLACED OVER 200 PER CENT OF PRODUCED RESERVES – MEANING THAT FOR EVERY BARREL PRODUCED, TWO BARRELS OF RESERVES WERE ADDED.

As a result, ARC ended the year with total proved plus probable reserves of 673 million boe, a six percent increase compared to 2014. Importantly, ARC delivered this growth profitably with a recycle ratio of 2.9 times for 2014. The majority of reserve growth is attributed to exploration and development activities with a portion coming from positive technical revisions in the Montney. A long proved plus probable Reserve Life Index of 15 years demonstrates the high quality and longevity of ARC's reserves. ARC has an extensive portfolio of internal development projects to support continued growth well into the future.

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 11, 2015 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the year ended December 31, 2014, and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014 as well as ARC's Annual Information Form that is filed on SEDAR at www.sedar.com. All financial information is reported in Canadian dollars, unless otherwise noted.

This MD&A contains additional generally accepted accounting principles ("GAAP") measures, non-GAAP measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with ARC's disclosure under the headings "Non-GAAP Measures," "Additional GAAP Measures," "Forward-looking Information and Statements" and "Glossary" included at the end of this MD&A.

ABOUT ARC RESOURCES LTD.

ARC is a dividend-paying Canadian oil and gas company 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 development of properties with a large volume of hydrocarbons in place commonly referred to as "resource plays."

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

1. **High quality, long-life assets** – ARC's 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 to create value through 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 development and support ARC's dividend.

2. **Operational excellence** – ARC is focused on capital discipline and cost management to extract the maximum return on its investments while operating in a safe and environmentally responsible manner. 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 using funds from operations [(1)]. ARC will finance value creating activities through a combination of sources including funds from operations, proceeds from ARC's Dividend Reinvestment Program ("DRIP"), reduced funding required under the Stock Dividend Program ("SDP"), proceeds from property dispositions, debt capacity, and if necessary, 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 [(1)].

4. **Top talent and strong leadership culture** – ARC is committed to the attraction, retention and development of the best and brightest people in the industry. ARC's employees conduct business every day in a culture of trust, respect, integrity and accountability. Building leadership talent at all levels of the organization is a key focus. ARC is also committed to corporate leadership through community investment, environmental reporting practices and open communication with all stakeholders. As of the end of December 2014, ARC had approximately 603 employees with 346 professional, technical and support staff in the Calgary office, and 257 individuals located across ARC's operating areas in western Canada.

(1) Funds from operations, net debt, and total capitalization are additional GAAP measures which may not be comparable to similar additional GAAP measures used by other entities. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A. Also refer to the "Funds from Operations" section within this MD&A for a reconciliation of ARC's net income to funds from operations and cash flow from operating activities.

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 9.9 per cent (Table 1).

Table 1

Total Returns (1)	**Trailing One Year**	Trailing Three Year	Trailing Five Year
Dividends per share ($)	**1.20**	3.60	6.00
Capital appreciation (depreciation) per share ($)	**(4.41)**	0.06	5.22
Total return per share (%)	**(11.4)**	14.9	60.4
Annualized total return per share (%)	**(11.4)**	4.7	9.9
S&P/TSX Exploration & Producers Index annualized total return (%)	**(22.1)**	(7.7)	(6.2)

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A. Calculated as at December 31, 2014.

Since 2010, ARC's production has grown by 38,433 boe per day, or 52 per cent, while its proved plus probable reserves have grown by 187.6 million boe, or 39 per cent. Table 2 highlights ARC's production and reserves for the last five years:

Table 2

	2014	2013	2012	2011	2010
Production (boe/d)	**112,387**	96,087	93,546	83,416	73,954
Daily production per thousand shares (1)	**0.35**	0.31	0.31	0.29	0.28
Proved plus probable reserves (mmboe) (2)(3)(4)	**672.7**	633.9	607.0	572.4	485.1
Proved plus probable reserves per share (boe) (5)	**2.1**	2.0	2.0	2.0	1.8

(1) Daily production per thousand shares represents annual average daily production divided by the diluted weighted average common shares for the respective years ending December 31.
(2) As determined by ARC's independent reserve evaluator solely at December 31.
(3) 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.
(4) 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 210 Per Cent Produced Reserves Replacement in 2014*" dated February 11, 2015.
(5) Per share amounts are based on weighted average shares, diluted.

ECONOMIC ENVIRONMENT

ARC's 2014 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined in Table 3 below:

Table 3

Selected Benchmark Prices and Exchange Rates (1)	Three Months Ended December 31			Twelve Months Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Brent (US$/bbl)	**77.07**	109.35	(30)	**99.45**	108.70	(9)
WTI oil (US$/bbl)	**73.20**	97.61	(25)	**92.91**	98.05	(5)
Edmonton Par (Cdn$/bbl)	**75.65**	86.64	(13)	**94.46**	93.16	1
Henry Hub NYMEX (US$/mmbtu) (2)	**4.00**	3.60	11	**4.41**	3.65	21
AECO natural gas (Cdn$/mcf)	**4.01**	3.15	27	**4.42**	3.16	40
Cdn$/US$ exchange rate	**1.14**	1.05	9	**1.10**	1.03	7

(1) The benchmark prices do not reflect ARC's realized sales prices. For average realized sales prices, refer to Table 13 in this MD&A. Prices and exchange rates presented above represent averages for the respective periods.
(2) NYMEX Henry Hub "Last Day" Settlement.

In the first six months of 2014, North American crude oil and natural gas prices reached their highest level on average since 2008. Strong prices contributed to significant drilling activity in North America, resulting in supply growth of both crude oil and natural gas. Increased supply led to a supply-demand imbalance, which resulted in price deterioration for both crude oil and natural gas markets late in 2014.

The over-supplied nature of the oil market became more apparent late in 2014, with the continued production growth from shale plays in the United States, slower than expected global demand growth, and sustained production levels by OPEC. As a result, there is currently a crude oil supply-demand imbalance. The sell-off in global oil prices was a market reaction to restore the supply-demand balance, given that OPEC did not reduce production.

Current oil prices are below marginal supply costs for new production from many areas; the current depressed prices have resulted in a significant reduction in 2015 budgeted capital spending for the global energy sector. Reduced drilling activity is expected to slow supply growth and re-balance markets, however there is a lag between drilling activity levels and resultant oil production due to the life cycle of well completions and tie-ins. In addition to re-balancing supply and demand, it is expected that the decrease in drilling activity will result in a meaningful decrease in oilfield service costs which should result in improved rates of return at lower commodity prices and a more efficient energy sector.

For natural gas, 2014 started with a cold winter that established record-setting demand. Depleted inventory levels supported both NYMEX Henry Hub and AECO prices above US$4 per mmbtu and Cdn$4 per GJ, respectively, for the first six months of the year. In the later part of 2014, US natural gas supply levels increased and inventory reached levels that are currently viewed as being adequate to satisfy the expected level of demand through the winter and into 2015.

In addition to volatile commodity prices, foreign exchange rates have also changed significantly over the past year. The US dollar has been particularly strong, reflecting the strength of the broad economic recovery in the United States. The Cdn$/US$ exchange rate has been further impacted by weaker Canadian exports resulting from low energy prices. The devaluation of the Canadian dollar relative to the US dollar partially offset the impact of lower US dollar-denominated crude oil and natural gas prices.

Annual Guidance and Financial Highlights

Table 4 is a summary of ARC's 2015 and 2014 guidance and a review of 2014 actual results. The 2015 guidance outlined below is under review and will be updated with ARC's first quarter 2015 results to incorporate reduced capital spending that includes cost savings from the service sector in response to reduced activity levels and reflects spending on only those projects that are profitable under current market conditions. ARC expects to spend approximately $150 million in the first quarter of 2015 and has a great deal of flexibility to adjust its capital budget as required. At this time, ARC's 2015 guidance estimates are unchanged from the original guidance announced on November 5, 2014 with the exception of 2015 capital expenditures, current income taxes and weighted average shares outstanding. Capital expenditures were reduced from $875 million to $750 million and current income taxes were revised to a range of zero to eight percent of funds from operations from three to eight percent of funds from operations due to lower expected commodity prices in 2015. Guidance for 2015 weighted average shares outstanding was increased to 339 million shares from 321 million shares to reflect the impact of ARC's equity offering of 17.9 million shares that closed on January 29, 2015.

Table 4

	2015 Guidance (3)(4)	2014 Guidance	**2014 YTD**	% Variance
Production				
Crude oil (bbl/d)	37,000 - 39,000	35,000 - 37,000	**36,525**	—
Condensate (bbl/d)	3,800 - 4,300	3,500 - 3,800	**3,667**	—
Natural gas (mmcf/d)	445 - 460	405 - 415	**406.1**	—
NGLs (bbl/d)	4,700 - 5,100	4,200 - 4,500	**4,518**	—
Total (boe/d)	120,000 - 125,000	110,000 - 114,000	**112,387**	—
Expenses ($/boe)				
Operating	8.80 - 9.30	9.00 - 9.40	**8.88**	(1)
Transportation	2.00 - 2.20	2.00 - 2.20	**2.23**	1
G&A (1)	2.00 - 2.30	2.20 - 2.40	**2.06**	(6)
Interest	1.10 - 1.30	1.10 - 1.20	**1.15**	—
Current income tax (per cent of funds from operations) (2)	0 - 8	6 - 8	**6**	—
Capital expenditures before land purchases and net property acquisitions ($ millions)	750	975	**945.5**	(3)
Land purchases and net property acquisitions ($ millions)	—	—	**96.5**	N/A
Weighted average shares, diluted (millions)	339	317	**317**	—

(1) The 2014 guidance for G&A expenses per boe was based on a range of $1.45 - $1.55 prior to the recognition of any expense associated with ARC's long-term incentive plans and $0.75 - $0.85 per boe associated with ARC's long-term incentive plans. Actual per boe costs for each of these components for the year ended December 31, 2014 were $1.44 and $0.62 per boe, respectively.
(2) The 2014 and 2015 corporate tax estimates will vary depending on level of commodity prices. Current income tax is quoted as a percentage of funds from operations before tax.
(3) 2015 production guidance does not take into account the impact of any dispositions that may occur during the year.
(4) 2015 guidance is under review and will be updated for reduced capital spending with ARC's first quarter 2015 results.

ARC's 2014 production was 112,387 boe per day, falling into the middle of the guidance range. Crude oil and liquids production was just above the mid-point of the guidance range while natural gas production averaged toward the lower end of the range.

On a per boe basis, operating expenses were below the guidance range during 2014, as ARC has continued to increase its production from properties with lower operating costs while divesting of non-core assets with historically higher operating costs. Transportation expenses are slightly outside of the guidance range as ARC incurred additional trucking costs throughout 2014 to transport liquids to market. As ARC manages the transportation and marketing of its products itself rather than working through a third-party marketer, it typically incurs additional transport costs that are recouped in the price it receives upon delivery. G&A expenses were below guidance in 2014, primarily reflecting a reduction to the estimated payment obligation under ARC's long-term incentive plans at December 31, 2014. G&A expenses before any impact of ARC's long-term incentive plans is just below the guidance range.

ARC incurred $945.5 million of capital expenditures during 2014. In addition, ARC spent $134 million on land purchases and "tuck-in" acquisitions of land and facilities and infrastructure during the year. In response to the deterioration of commodity prices late in 2014, ARC announced a reduction to its 2015 capital program from $875 million to $750 million (see January 7, 2015 new release *"ARC Resources Ltd. Announces Bought Deal Financing and Reduced 2015 Capital*

Program"). Since that date, there has been a continued decline in commodity prices and as such ARC is re-evaluating its 2015 spending to ensure it is creating long-term value for its shareholders. This includes working with all service providers to find additional cost savings as ARC believes that such costs will come down as activity levels decline. ARC will only execute capital projects that meet appropriate hurdle rates of return and as such it is expected that the 2015 capital development program will be less than the $750 million currently approved. This reduction will have a modest impact on full year 2015 production volumes, particularly on the oil side. Updated guidance will be provided with the release of first quarter 2015 results.

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

2014 FOURTH QUARTER FINANCIAL AND OPERATING RESULTS

Financial Highlights

Table 5

	Three Months Ended December 31			Twelve Months Ended December 31		
($ millions, except per share and volume data)	**2014**	2013	% Change	**2014**	2013	% Change
Funds from operations (1)	**251.7**	237.8	6	**1,124.0**	861.8	30
Funds from operations per share (1)(2)	**0.79**	0.76	4	**3.54**	2.76	28
Net income and comprehensive income	**113.7**	13.6	736	**380.8**	240.7	58
Operating income (3)	**64.5**	50.0	29	**390.3**	224.9	74
Dividends per share (2)	**0.30**	0.30	—	**1.20**	1.20	—
Average daily production (boe/d) (4)	**117,986**	100,883	17	**112,387**	96,087	17

(1) Refer to the sections entitled "Funds from Operations" and "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 weighted average shares, diluted.
(3) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A. Also refer to the "Operating Income" section within this MD&A for the definition of operating income and a reconciliation of ARC's net income to operating income.
(4) Reported production amount is based on company interest before royalty burdens.

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 GAAP. Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.

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

Table 6

	Three Months Ended December 31		Twelve Months Ended December 31	
($ millions)	**2014**	2013	**2014**	2013
Net income	**113.7**	13.6	**380.8**	240.7
Adjusted for the following non-cash items:				
DD&A and impairment	**279.4**	157.0	**758.5**	551.9
Accretion of ARO	**3.7**	3.1	**14.9**	12.5
Intangible E&E expenses	**9.5**	1.3	**39.4**	1.3
Deferred tax expense	**23.5**	15.1	**59.1**	77.9
Unrealized loss (gain) on risk management contracts	**(212.6)**	27.8	**(205.3)**	(30.6)
Unrealized gain on risk management contracts recognized in previous quarters (1)	**—**	(5.0)	**—**	—
Unrealized loss on foreign exchange	**32.7**	24.8	**73.8**	48.9
Loss (gain) on disposal of petroleum and natural gas properties	**(0.1)**	0.4	**1.8**	(38.9)
Other	**1.9**	(0.3)	**1.0**	(1.9)
Funds from operations	**251.7**	237.8	**1,124.0**	861.8
Unrealized gain on risk management contracts recognized in previous quarters (1)	**—**	5.0	**—**	—
Net change in other liabilities	**0.4**	(2.3)	**(20.4)**	(16.6)
Change in non-cash working capital	**39.1**	(19.6)	**49.4**	(43.5)
Cash flow from operating activities	**291.2**	220.9	**1,153.0**	801.7

(1) ARC enters 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 gains or 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 effects 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 gains or losses previously applied to all prior quarters are reversed.

Details of the change in funds from operations from the three and twelve months ended December 31, 2013 to the three and twelve months ended December 31, 2014 are included in Table 7 below:

Table 7

	Three Months Ended December 31		Twelve Months Ended December 31	
	$ millions	$/Share (1)	$ millions	$/Share (1)
Funds from operations – 2013	237.8	0.76	861.8	2.76
Volume variance				
Crude oil and liquids	**37.1**	**0.12**	**214.8**	**0.69**
Natural gas	**24.2**	**0.08**	**71.4**	**0.23**
Price variance				
Crude oil and liquids	**(53.5)**	**(0.18)**	**3.2**	**0.01**
Natural gas	**21.3**	**0.07**	**194.0**	**0.62**
Realized gain or loss on risk management contracts	**15.9**	**0.05**	**(44.8)**	**(0.14)**
Unrealized gain on risk management contracts recognized in previous quarters (2)	**5.0**	**0.02**	**—**	**—**
Royalties	**(3.2)**	**(0.01)**	**(74.9)**	**(0.24)**
Expenses				
Transportation	**(10.3)**	**(0.03)**	**(31.4)**	**(0.10)**
Operating	**(7.3)**	**(0.02)**	**(25.5)**	**(0.08)**
G&A	**(1.4)**	**(0.01)**	**13.8**	**0.04**
Interest	**(1.6)**	**(0.01)**	**(4.8)**	**(0.02)**
Current tax	**(12.7)**	**(0.04)**	**(54.0)**	**(0.17)**
Realized gain or loss on foreign exchange	**0.4**	**—**	**0.4**	**—**
Diluted shares	**—**	**(0.01)**	**—**	**(0.06)**
Funds from operations – 2014	**251.7**	**0.79**	**1,124.0**	**3.54**

(1) Per share amounts are based on weighted average shares, diluted.

(2) ARC enters 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 gains or 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 effects 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 gains or losses previously applied to all prior quarters are reversed.

Funds from operations increased by six per cent in the fourth quarter of 2014 to $251.7 million from $237.8 million generated in the fourth quarter of 2013. The increase reflects increased revenue associated with higher crude oil and liquids and natural gas production coupled with higher natural gas prices, partially offset by lower crude oil and liquids pricing. Increased realized gains on risk management contracts also served to increase fourth quarter funds from operations which was partially offset by increased royalties, transportation and operating expenses and higher current taxes.

For the year ended December 31, 2014, funds from operations increased by $262.2 million or 30 per cent as compared to the same period in 2013. Increased production volumes and higher crude oil, natural gas and NGLs prices as well as lower G&A expenses contributed to the year-over-year increase in funds from operations, offset by higher royalties, increased realized losses on risk management contracts and higher current income taxes, transportation, and operating expenses.

2014 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 [6] $/Share
Business Environment [1]			
Crude oil price (US$ WTI/bbl) [2][3]	92.91	1.00	0.033
Natural gas price (Cdn$ AECO/mcf) [2][3]	4.42	0.10	0.029
Cdn$/US$ exchange rate [2][3][4]	1.10	0.01	0.026
Interest rate on floating-rate debt [2]	2.7%	1.0%	0.003
Operational			
Crude oil and liquids production volumes (bbl/d) [5]	44,710	1.0%	0.027
Natural gas production volumes (mmcf/d) [5]	406.1	1.0%	0.013
Operating expenses ($/boe) [5]	8.88	1.0%	0.009
G&A expenses ($/boe) [5]	2.06	10.0%	0.023

(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 prices for the year ended December 31, 2014. See Table 13 of this MD&A for additional details. 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, condensate, and NGLs prices that are presented in US dollars.
(5) Operational assumptions are based upon results for the year ended December 31, 2014.
(6) Refer to the sections entitled "Funds from Operations" and “Additional GAAP Measures” contained within this MD&A.

Net Income

Net income of $113.7 million ($0.36 per share, diluted) was earned in the fourth quarter of 2014, a $100.1 million increase compared to net income of $13.6 million ($0.04 per share, diluted) in the fourth quarter of 2013. ARC recorded increased revenue net of royalties of $25.9 million and higher gains on risk management contracts of $256.3 million. The increased revenue is a reflection of increased production volumes and higher realized natural gas prices during the fourth quarter of 2014 relative to the fourth quarter of 2013, partially offset by lower realized crude oil and liquids pricing, while the increase in gains on risk management contracts reflects lower forward commodity prices at the end of the fourth quarter as compared to the average of prices identified in ARC's risk management contracts. Increased activity has led to higher transportation and operating expenses by $10.3 million and $7.3 million, respectively. ARC's DD&A expense increased by $122.4 million, of which $103 million is related to impairment charges recognized by ARC in the fourth quarter of 2014 on assets in its Northern Alberta district due to reduced forward pricing estimates. Increased income tax expense of $21.1 million also served to offset the increase in net income.

For the year ended December 31, 2014, net income was $380.8 million ($1.20 per share, diluted) as compared to $240.7 million ($0.77 per share, diluted) in 2013 resulting in a year-over-year increase of $140.1 million. Revenue after royalties increased by $408.5 million for the year ended December 31, 2014 as compared to the prior year, and gains on risk management contracts increased by $129.9 million during the same period. Consistent with the fourth quarter, ARC recognized increased transportation and operating expenses of $31.4 million and $25.5 million, respectively, during 2014 as compared to 2013 reflecting higher production levels, while increased DD&A and impairment charges of $206.6 million relate to increased production levels and lower forward commodity prices and include $103 million of impairment charges recognized in the fourth quarter. Reduced G&A expenses of $12.8 million served to increase net income, while increased intangible exploration and evaluation expenses of $38.1 million and increased losses on foreign exchange of $24.5 million during 2014 offset some of the increases to net income. Additionally, a $38.9 million gain on disposal of petroleum and natural gas properties was recorded during 2013 when a loss of $1.8 million was recorded during the same period of the current year.

Operating Income

Operating income is a non-GAAP financial measure that does not have standardized meaning, and is therefore unlikely to be comparable to similar measures presented by other issuers. Operating income is defined by ARC as net income excluding the impact of after-tax unrealized gains and losses on risk management contracts, after-tax unrealized gains and losses on foreign exchange, after-tax gains on disposal of petroleum and natural gas properties, after-tax impairment on PP&E, after-tax E&E expense, after-tax unrealized gains and losses on short-term investments, and is further adjusted to include any after-tax portion of unrealized gains or losses on risk management contracts settled annually that relate to current period production. ARC believes that adjusting net income for these non-operating items presents a measure of "full cycle" financial performance that is more comparable between periods than net income. The most directly comparable GAAP measure to operating income is net income. Refer to the section entitled "Non-GAAP Measures" at the end of this MD&A.

ARC's operating income was $64.5 million in the fourth quarter of 2014, up $14.5 million compared to operating income of $50 million in the fourth quarter of 2013. For the year ended December 31, 2014, operating income was $390.3 million, up $165.4 million from $224.9 million from the same period in 2013.

Table 9

	Three Months Ended December 31		Twelve Months Ended December 31	
Operating Income ($ millions, except per share amounts)	**2014**	2013	**2014**	2013
Net income	**113.7**	13.6	**380.8**	240.7
Add (deduct) non-operating items:				
Unrealized loss (gain) on risk management contracts	**(212.6)**	27.8	**(205.3)**	(30.6)
Unrealized gain on risk management contracts recognized in previous quarters (1)	**—**	(5.0)	**—**	—
Intangible E&E expenses	**9.5**	1.3	**39.4**	1.3
Unrealized loss on foreign exchange	**32.7**	24.8	**73.8**	48.9
Loss (gain) on disposal of petroleum and natural gas properties	**(0.1)**	0.4	**1.8**	(38.9)
Impairment on PP&E	**103.0**	—	**103.0**	—
Gain (loss) on short-term investment	**1.5**	(0.4)	**—**	(1.9)
Income tax associated with non-operating items	**16.8**	(12.5)	**(3.2)**	5.4
Operating income	**64.5**	50.0	**390.3**	224.9
Operating income per share, diluted	**0.20**	0.16	**1.23**	0.72

(1) ARC enters 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 gains or 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 effects 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 gains or losses previously applied to all prior quarters are reversed.

Production

Table 10

	Three Months Ended December 31			Twelve Months Ended December 31		
Production	**2014**	2013	% Change	**2014**	2013	% Change
Light and medium crude oil (bbl/d)	**36,276**	34,556	5	**35,467**	31,929	11
Heavy oil (bbl/d)	**1,166**	986	18	**1,058**	855	24
Condensate (bbl/d)	**3,448**	2,580	34	**3,667**	2,251	63
Natural gas (mmcf/d)	**432.1**	359.4	20	**406.1**	349.4	16
NGLs (bbl/d)	**5,075**	2,868	77	**4,518**	2,811	61
Total production (boe/d)	**117,986**	100,883	17	**112,387**	96,087	17
% Natural gas production	**61**	59	3	**60**	61	(2)
% Crude oil and liquids production	**39**	41	(5)	**40**	39	3

ARC's crude oil production consists predominantly of light and medium crude oil while heavy oil accounts for approximately three per cent of total oil production. During the fourth quarter of 2014, crude oil and liquids production increased 12 per cent from the fourth quarter of the prior year. Increased crude oil and liquids production is mainly the result of positive drilling results from new wells in Tower in northeastern British Columbia and Ante Creek in northern Alberta.

For the year ended December 31, 2014, ARC's total crude oil and liquids production increased by 6,864 barrels per day or 18 per cent as compared to the same period in 2013, also a result of production from new wells brought on-stream throughout 2014.

Natural gas production was 432.1 mmcf per day in the fourth quarter of 2014, an increase of 20 per cent from the 359.4 mmcf per day produced in the fourth quarter of 2013. The increase is mainly attributed to new production in Sunrise as new wells were brought on to fill increased capacity at a third-party facility as well as at Parkland and Attachie in northeastern British Columbia. Higher volumes at Sunrise were partially offset by shut-ins of existing production to accommodate fraccing in the area as well as minor facility issues. Additionally, the disposition of non-core assets early in the second quarter of 2014 producing approximately 2,400 boe per day served as a partial offset to gains in production.

ARC produced 406.1 mmcf per day of natural gas during the year ended December 31, 2014, a 16 per cent increase from the prior year, reflecting strong production results from new wells drilled primarily in northeastern British Columbia.

During the fourth quarter of 2014, ARC drilled 34 gross wells (31 net wells) on operated properties consisting of 30 gross (27 net) oil wells, one gross (one net) natural gas wells, and three gross (three net) liquids-rich natural gas wells. Total wells drilled to December 31, 2014 were 187 gross wells (177 net wells) on operated properties consisting of 139 gross (129 net) oil wells, 26 gross (26 net) natural gas wells, and 22 gross (22 net) liquids-rich natural gas wells.

Table 11 summarizes ARC's production by core area for the fourth quarter of 2014 and 2013:

Table 11

	Three Months Ended December 31, 2014				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area (1)	(boe/d)	(bbl/d)	(bbl/d)	(mmcf/d)	(bbl/d)
Northeast BC	**63,675**	4,372	2,420	325.0	2,704
Northern AB	**22,583**	8,496	748	70.3	1,626
Pembina	**12,068**	9,331	167	12.8	444
South Central AB (2)	**8,645**	4,542	60	23.0	213
Southeast SK & MB	**11,015**	10,701	53	1.0	88
Total	**117,986**	**37,442**	**3,448**	**432.1**	**5,075**

	Three Months Ended December 31, 2013				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area (1)	(boe/d)	(bbl/d)	(bbl/d)	(mmcf/d)	(bbl/d)
Northeast BC	44,131	1,232	1,535	243.0	879
Northern AB	21,605	9,100	709	63.1	1,278
Pembina	12,427	9,698	177	12.8	420
South Central AB (2)	11,120	4,233	96	39.3	235
Southeast SK & MB	11,600	11,279	63	1.2	56
Total	100,883	35,542	2,580	359.4	2,868

(1) Provincial references: "AB" is Alberta, "BC" is British Columbia, "SK" is Saskatchewan, "MB" is Manitoba.
(2) During the second quarter of 2014, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 2,400 boe per day prior to disposal.

Table 11a summarizes ARC's production by core area for the twelve months ended December 31, 2014 and 2013:

Table 11a

	Twelve Months Ended December 31, 2014				
Production	**Total**	**Crude Oil**	**Condensate**	**Natural Gas**	**NGLs**
Core Area (1)	(boe/d)	(bbl/d)	(bbl/d)	(mmcf/d)	(bbl/d)
Northeast BC	**57,669**	3,384	2,580	296.4	2,302
Northern AB	**23,339**	9,547	811	68.8	1,511
Pembina	**11,391**	8,779	163	12.3	405
South Central AB (2)	**9,190**	4,321	70	27.5	220
Southeast SK & MB	**10,798**	10,494	43	1.1	80
Total	**112,387**	**36,525**	**3,667**	**406.1**	**4,518**

	Twelve Months Ended December 31, 2013				
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area (1)	(boe/d)	(bbl/d)	(bbl/d)	(mmcf/d)	(bbl/d)
Northeast BC	42,189	934	1,224	235.6	774
Northern AB	18,274	7,005	640	56.8	1,156
Pembina	12,319	8,878	263	15.8	545
South Central AB (2)	11,698	4,648	90	40.1	273
Southeast SK & MB	11,607	11,319	34	1.1	63
Total	96,087	32,784	2,251	349.4	2,811

(1) Provincial references: "AB" is Alberta, "BC" is British Columbia, "SK" is Saskatchewan, "MB" is Manitoba.
(2) During the second quarter of 2014, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 2,400 boe per day prior to disposal.

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

Sales revenue from crude oil, natural gas, condensate, NGLs and other income was $454.1 million in the fourth quarter of 2014, an increase of $29.1 million from $425 million for the same period in the prior year, reflecting increased production volumes that contributed additional revenue of $61.3 million, partially offset by a decrease in average commodity pricing which lowered revenue by $32.2 million. Crude oil, condensate and NGLs revenue accounted for $288.5 million or 64 per cent of fourth quarter sales revenue.

For the year ended December 31, 2014, sales revenue from crude oil, natural gas, condensate, NGLs and other income was $2,107.7 million, an increase of $483.4 million from $1,624.3 million compared to the prior year, reflecting an increase in 2014 average pricing which contributed additional revenue of $197.2 million and increased production volumes that contributed an additional $286.2 million.

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

Table 12

	Three Months Ended December 31			Twelve Months Ended December 31		
Sales revenue by product ($ millions)	**2014**	2013	% Change	**2014**	2013	% Change
Crude oil	**249.7**	270.9	(8)	**1,208.4**	1,063.8	14
Condensate	**23.5**	21.0	12	**125.6**	77.3	62
Natural gas	**165.0**	119.5	38	**705.6**	440.2	60
NGLs	**15.3**	10.9	40	**65.1**	37.2	75
Total sales revenue from crude oil, natural gas, condensate and NGLs	**453.5**	422.3	7	**2,104.7**	1,618.5	30
Other income	**0.6**	2.7	(78)	**3.0**	5.8	(48)
Total sales revenue	**454.1**	425.0	7	**2,107.7**	1,624.3	30

Commodity Prices Prior to Hedging

Table 13

	Three Months Ended December 31			Twelve Months Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Average Benchmark Prices						
AECO natural gas (Cdn$/mcf) (1)	**4.01**	3.15	27	**4.42**	3.16	40
WTI oil (US$/bbl)	**73.20**	97.61	(25)	**92.91**	98.05	(5)
Cdn$/US$ exchange rate	**1.14**	1.05	9	**1.10**	1.03	7
WTI oil (Cdn$/bbl)	**83.45**	102.49	(19)	**102.20**	100.99	1
Edmonton par (Cdn$/bbl)	**75.65**	86.64	(13)	**94.46**	93.16	1
ARC Realized Prices Prior to Hedging						
Crude oil ($/bbl)	**72.49**	82.85	(13)	**90.64**	88.90	2
Condensate ($/bbl)	**74.04**	88.72	(17)	**93.81**	94.13	—
Natural gas ($/mcf)	**4.15**	3.61	15	**4.76**	3.45	38
NGLs ($/bbl)	**32.69**	41.47	(21)	**39.45**	36.25	9
Total commodity price prior to other income and hedging ($/boe)	**41.78**	45.51	(8)	**51.31**	46.15	11
Other income ($/boe)	**0.05**	0.29	(83)	**0.07**	0.16	(56)
Total commodity price prior to hedging ($/boe)	**41.83**	45.80	(9)	**51.38**	46.31	11

(1) Represents the AECO Monthly (7a) index.

In the fourth quarter of 2014, WTI (US$/bbl) decreased 25 per cent as compared to the same period in 2013. Similarly, ARC's realized crude oil price also decreased by 13 per cent during the same time period. During the fourth quarter of 2014, the differential between WTI and Edmonton posted prices narrowed to an average discount of US$6.51 per barrel compared to US$14.97 per barrel in the same period in 2013 and during the same period, the average exchange rate for the Canadian dollar as compared to the US dollar weakened from $1.05 to $1.14, lessening the overall impact of the decrease in WTI.

ARC's average realized oil price for the twelve months ended December 31, 2014 of $90.64 per barrel was two per cent higher than in 2013. Although WTI decreased five per cent during 2014 as compared to 2013, the average differential between WTI and Edmonton posted prices narrowed slightly in 2014 when compared to 2013 from an average of US $7.57 to US$7.41, respectively. Additionally, the value of the Canadian dollar weakened in comparison to the US dollar, from an average of $1.03 in 2013 to $1.10 in 2014, which increased the Canadian dollar price that ARC ultimately received for its oil.

Natural gas prices increased in the fourth quarter of 2014 as compared to 2013 as natural gas inventory levels remained lower compared to the previous year. ARC's fourth quarter 2014 average realized price of $4.15 per mcf was higher than the average AECO monthly index price during the same period due in part to ARC's higher than average heat content in its natural gas. Additionally, ARC maintains a diversified sales portfolio that allows some flexibility on a portion of its natural gas sales between monthly average and daily spot pricing at sales hubs in western Canada and the mid-western United States.

During the year ended December 31, 2014, ARC's average realized natural gas price of $4.76 per mcf increased by 38 per cent over the same period of the prior year and reflects the 40 per cent increase in the average AECO monthly posting in 2014 as compared to 2013.

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

Table 14

Revenue by Product Type	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2014**		2013		**2014**		2013	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Crude oil and liquids	**288.5**	**64**	302.8	71	**1,399.1**	**66**	1,178.3	73
Natural gas	**165.0**	**36**	119.5	28	**705.6**	**34**	440.2	27
Total sales revenue from crude oil, natural gas, condensate and NGLs	**453.5**	**100**	422.3	99	**2,104.7**	**100**	1,618.5	100
Other income	**0.6**	**—**	2.7	1	**3.0**	**—**	5.8	—
Total sales revenue	**454.1**	**100**	425.0	100	**2,107.7**	**100**	1,624.3	100

Risk Management

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 (the "Board"). These guidelines currently restrict risk management contracts to a maximum of 55 per cent of total forecast production whereby a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent of forecast production for that commodity over the next two years, and with a maximum of 25 percent of forecast natural gas production in risk management contracts beyond two years and up to five years. ARC's risk management program guidelines allow for further risk management contracts on anticipated volumes associated with new production arising from specific capital projects and acquisitions or to further protect cash flows for a specific period with approval of the Board.

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

Table 15 summarizes the total gain or loss on risk management contracts for the fourth quarter of 2014 compared to the same period in 2013:

Table 15

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**Power**	**Q4 2014 Total**	Q4 2013 Total
Realized gain (loss) on contracts (1)	29.9	3.5	(7.7)	(0.9)	**24.8**	8.9
Unrealized gain on contracts recognized in previous quarters (2)	—	—	—	—	**—**	(5.0)
Impact of risk management contracts on funds from operations	29.9	3.5	(7.7)	(0.9)	**24.8**	3.9
Unrealized gain (loss) on contracts related to future production periods (3)	23.2	183.8	3.9	1.7	**212.6**	(22.8)
Gain (loss) on risk management contracts	**53.1**	**187.3**	**(3.8)**	**0.8**	**237.4**	(18.9)

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

Table 15a summarizes the total gain or loss on risk management contracts for the year ended December 31, 2014 compared to the same period in 2013:

Table 15a

Risk Management Contracts ($ millions)	**Crude Oil & Liquids**	**Natural Gas**	**Foreign Currency**	**Power**	**2014 YTD Total**	2013 YTD Total
Realized gain (loss) on contracts (1)	12.0	(23.5)	(15.9)	(1.7)	**(29.1)**	15.7
Unrealized gain (loss) on contracts related to future production periods (2)	40.9	165.7	(0.9)	(0.4)	**205.3**	30.6
Gain (loss) on risk management contracts	**52.9**	**142.2**	**(16.8)**	**(2.1)**	**176.2**	46.3

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

During the fourth quarter of 2014, ARC recorded a gain of $237.4 million on its risk management contracts comprising realized gains of $24.8 million and unrealized gains of $212.6 million. The realized gains related to crude oil and natural gas, offset by realized losses on foreign exchange and electricity contracts.

For the year ended December 31, 2014, ARC has recognized a gain on its risk management contracts of $176.2 million comprising a realized loss of $29.1 million and an unrealized gain of $205.3 million. The realized losses are related to natural gas, foreign exchange and electricity contracts, offset by gains on crude oil contracts.

ARC's fourth quarter 2014 net unrealized gains related primarily to natural gas contracts and to a lesser extent, crude oil contracts. Gains on natural gas contracts reflect lower NYMEX prices and wider basis through 2019 while gains on crude oil contracts reflect contract gains from lower crude oil prices through the first half of 2015.

ARC’s risk management contracts provide protection from natural gas prices falling lower than an average floor price of US$3.94 per mmbtu on approximately 219,900 mmbtu per day for 2015. In addition, they provide upside participation to a price of US$4.56 per mmbtu on approximately 219,900 mmbtu per day for 2015. ARC has also executed long-term natural gas hedge contracts on 145,000 mmbtu per day for the period 2016 through 2017, 90,000 mmbtu per day for 2018 and 40,000 mmbtu per day for 2019.

ARC also has AECO basis swap contracts in place, fixing the AECO price received to approximately 90 per cent of the Henry Hub NYMEX price on a portion of its natural gas volume throughout 2015 and into 2019. As at December 31, 2014, the net fair value of these basis swap contracts was an asset of $67.7 million.

ARC has protected the selling price on a portion of crude oil production by establishing crude oil floor and ceiling prices for 2015. Approximately 6,000 barrels per day of crude oil production has been hedged at floor prices of US$90 per barrel for the first six months of 2015. ARC has also sold floors on these positions at an average price of US$65 per barrel which limit downside protection and reduce ARC’s overall hedging transaction costs. These contracts allow ARC to participate in crude oil prices up to approximately US$101 per barrel on 6,000 barrels per day for the first half of 2015. Additionally, ARC has hedged approximately 5,000 barrels per day of crude oil production throughout the second and third quarters of 2015 at an average floor price of Cdn$60 per barrel. These contracts allow ARC to participate in crude oil prices up to Cdn$80 per barrel on 5,000 barrels per day of production throughout the second and third quarters of 2015.

Table 16 summarizes ARC's average crude oil and natural gas hedged volumes for 2015 through 2019 as at the date of this MD&A. For a complete listing and terms of ARC's hedging contracts at December 31, 2014, see Note 15 "Financial Instruments and Market Risk Management" in the financial statements as at and for the year ended December 31, 2014. Updates to the following table are posted to ARC's website at www.arcresources.com.

Table 16

Hedge Positions Summary (1)										
As at February 11, 2015	**2015**		**2016**		**2017**		**2018**		**2019**	
Crude Oil (2)	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	100.83	2,975	—	—	—	—	—	—	—	—
Floor	90.00	2,975	—	—	—	—	—	—	—	—
Sold Floor	65.00	2,975	—	—	—	—	—	—	—	—
Crude Oil (2)	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day
Ceiling	80.00	2,507	—	—	—	—	—	—	—	—
Floor	60.00	2,507	—	—	—	—	—	—	—	—
Natural Gas (3)	US$/ mmbtu	mmbtu/ day	US$/ mmbtu	mmbtu/ day	US$/ mmbtu	mmbtu/ day	US$/ mmbtu	mmbtu/ day	US$/ mmbtu	mmbtu/ day
Ceiling	4.56	219,932	4.81	145,000	4.81	145,000	4.92	90,000	5.00	40,000
Floor	3.94	219,932	4.00	145,000	4.00	145,000	4.00	90,000	4.00	40,000
Natural Gas - AECO Basis (4)	AECO/ NYMEX	mmbtu/ day	AECO/ NYMEX	mmbtu/ day	AECO/ NYMEX	mmbtu/ day	AECO/ NYMEX	mmbtu/ day	AECO/ NYMEX	mmbtu/ day
Swap (percentage of NYMEX)	89.9	145,123	90.3	140,000	90.2	140,000	88.2	55,000	90.8	9,918
Foreign Exchange	Cdn$/ US$	US$ Total	Cdn$/ US$	US$ Total	Cdn$/ US$	US$ Total	Cdn$/ US$	US$ Total	Cdn$/ US$	US$ Total
Ceiling	1.0725	48,000	—	—	—	—	—	—	—	—
Floor	1.0463	48,000	—	—	—	—	—	—	—	—

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices disclosed in Note 15 "Financial Instruments and Market Risk Management" in the financial statements for the year ended December 31, 2014.
(2) The crude oil prices in this table are referenced to WTI.
(3) The natural gas prices in this table are referenced to NYMEX at Henry Hub.
(4) ARC sells the majority of its natural gas production based on AECO pricing. To reduce the risk of weak basis pricing (AECO relative to NYMEX) ARC has hedged a portion of production by tying ARC's price to a percentage of the NYMEX natural gas price.

"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 limit 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 16 can be interpreted for approximate current year values (all in US dollars):

- If the market price is above $100.83 per barrel, ARC will receive $100.83 per barrel on 2,975 barrels per day.
- If the market price is between $90.00 and $100.83 per barrel, ARC will receive the market price on 2,975 barrels per day.
- If the market price is between $65.00 and $90.00 per barrel, ARC will receive $90.00 per barrel on 2,975 barrels per day.
- If the market price is below $65.00 per barrel, ARC will receive $90.00 per barrel less the difference between $65.00 per barrel and the market price on 2,975 barrels per day. For example, if the market price is at $55.00 per barrel, ARC will receive $80.00 per barrel on 2,975 barrels per day.

The net fair value of ARC's risk management contracts at December 31, 2014 was a net asset of $257.8 million, representing the expected market price to buy out ARC's contracts at the balance sheet date after any adjustments for credit risk. This may differ from what will eventually be settled in future periods.

Operating Netbacks

ARC's operating netback prior to hedging was $25.00 per boe in the fourth quarter of 2014 ($33.01 for the year ended December 31, 2014) as compared to $28.34 per boe in the same period of 2013 ($28.57 for the year ended December 31, 2013).

ARC's fourth quarter and 2014 netbacks, including realized hedging gains and losses, were $27.29 per boe and $32.36 per boe, respectively, representing a decrease of five per cent and an increase of 12 per cent as compared to the same periods in 2013.

The components of operating netbacks for the fourth quarter of 2014 compared to the same period in 2013 are summarized in Table 17:

Table 17

Netbacks (1)	**Crude Oil**	**Heavy Oil**	**Condensate**	**Natural Gas**	**NGLs**	**Q4 2014 Total**	Q4 2013 Total
	($/bbl)	($/bbl)	($/bbl)	($/mcf)	($/bbl)	($/boe)	($/boe)
Average sales price	72.90	59.71	74.04	4.15	32.69	**41.78**	45.51
Other income	—	—	—	—	—	**0.05**	0.29
Total sales	72.90	59.71	74.04	4.15	32.69	**41.83**	45.80
Royalties	(11.97)	(4.32)	(13.72)	(0.39)	(4.85)	**(5.77)**	(6.42)
Transportation	(3.39)	(0.62)	(4.59)	(0.27)	(8.17)	**(2.51)**	(1.83)
Operating expenses (2)	(14.46)	(13.27)	(6.18)	(0.96)	(6.05)	**(8.55)**	(9.21)
Netback prior to hedging	43.08	41.50	49.55	2.53	13.62	**25.00**	28.34
Hedging gain (3)	7.24	—	—	0.02	—	**2.29**	0.41
Netback after hedging	50.32	41.50	49.55	2.55	13.62	**27.29**	28.75
% of total netback	57	2	5	34	2	**100**	100

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

(2) Composed of direct costs incurred to operate crude oil and natural gas wells. A number of assumptions have been made in allocating these costs between crude oil, heavy oil, condensate, natural gas and NGLs production.

(3) Includes realized cash gains and losses on commodity risk management contracts, plus a reversal for unrealized gains and losses on risk management contracts that relate to current year production that have been recognized in netback calculations in prior quarters.

The components of operating netbacks for the year ended December 31, 2014 compared to the same period in 2013 are summarized in Table 17a:

Table 17a

Netbacks [1]	Crude Oil	Heavy Oil	Condensate	Natural Gas	NGLs	**2014 YTD Total**	2013 YTD Total
	($/bbl)	($/bbl)	($/bbl)	($/mcf)	($/bbl)	($/boe)	($/boe)
Average sales price	91.17	72.95	93.81	4.76	39.45	**51.31**	46.15
Other income	—	—	—	—	—	**0.07**	0.16
Total sales	91.17	72.95	93.81	4.76	39.45	**51.38**	46.31
Royalties	(14.65)	(4.99)	(14.20)	(0.52)	(6.08)	**(7.26)**	(6.36)
Transportation	(2.97)	(0.71)	(3.36)	(0.25)	(6.82)	**(2.23)**	(1.72)
Operating expenses [2]	(14.94)	(15.54)	(6.58)	(0.97)	(6.98)	**(8.88)**	(9.66)
Netback prior to hedging	58.61	51.71	69.67	3.02	19.57	**33.01**	28.57
Hedging gain (loss) [3]	0.12	—	—	(0.19)	—	**(0.65)**	0.45
Netback after hedging	58.73	51.71	69.67	2.83	19.57	**32.36**	29.02
% of total netback	57	2	7	32	2	**100**	100

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.
(2) Composed of direct costs incurred to operate crude oil and natural gas wells. A number of assumptions have been made in allocating these costs between crude oil, heavy oil, condensate, natural gas and NGLs production.
(3) Includes realized cash gains and losses on commodity risk management contracts.

Royalties

ARC pays royalties to the respective provincial governments and landowners of the four western Canadian provinces in which it operates. Approximately 85 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 condensate and NGLs have a flat royalty rate of 20 per cent of sales revenue, the royalty rates for natural gas are based on the drill date of a well and a producer 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 relate to oil production. Royalty calculations in these provinces are based on the classification of the oil product and well productivity.

Each province has various incentive programs in place to promote 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.

In the first quarter of 2013, the British Columbia government announced a three per cent minimum royalty for all natural gas wells that qualify for the Deep Well Royalty Credit as well as the termination of the Summer Drilling Credit Program. These changes were effective April 1, 2013 and had a minimal impact on natural gas royalties for the balance of 2013. During the first quarter of 2014, the provincial government of British Columbia announced further changes to its royalty program, whereby the three per cent minimum royalty was replaced by a six per cent minimum and additional royalty credits will be made available for horizontal wells drilled to depths greater than 1,900 meters. These changes apply to wells spud on or after April 1, 2014.

Total royalties as a percentage of pre-hedged commodity product sales revenue decreased from 14 per cent ($6.42 per boe) in the fourth quarter of 2013 to 13.8 per cent ($5.77 per boe) in the fourth quarter of 2014 reflecting the decrease to average commodity prices during that time period. Total royalties increased from $59.5 million in the fourth quarter of 2013 to $62.7 million in the fourth quarter of 2014 as a result of increased sales volumes. For the year ended December 31, 2014, total royalties represented 14.1 per cent of pre-hedged commodity product sales ($7.26 per boe) as compared to 13.7 per cent ($6.36 per boe) for the same period in 2013. The increase is primarily attributed to higher average commodity prices year-over-year.

Operating and Transportation Expenses

Operating expenses decreased to $8.55 per boe in the fourth quarter of 2014 ($8.88 per boe for the year ended December 31, 2014) compared to $9.21 per boe in the fourth quarter of 2013 ($9.66 per boe for the year ended December 31, 2013). On an absolute dollar basis, operating expenses have increased by $7.3 million or nine per cent for the fourth quarter of 2014 as compared to the fourth quarter of 2013, reflecting additional costs associated with increased production volumes. On a per boe basis, ARC's operating costs were lower for the fourth quarter of 2014 and the year compared to the same periods of 2013 as additional production volumes were brought on in areas having lower average operating costs. Additionally, electricity costs were lower in 2014 than 2013 with an average Alberta Power Pool Rate of $49.63 per megawatt hour in 2014 as compared to an average of $79.95 per megawatt hour in 2013, further reducing operating costs year-over-year.

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 gains and losses on risk management contracts on the consolidated statements of income (the "statements of income"). Had these contracts been recognized within operating expenses, ARC’s operating expenses would have been increased by $0.08 per boe for the three months ended December 31, 2014 (increased by $0.04 per boe for the year ended December 31, 2014) as a result of a realized loss of $0.9 million during the period (realized loss of $1.7 million for the year ended December 31, 2014).

Transportation expense was $2.51 per boe during the fourth quarter of 2014 ($2.23 per boe for the year ended December 31, 2014) as compared to $1.83 per boe in the fourth quarter of 2013 ($1.72 per boe for the year ended December 31, 2013). This increase in transportation charges during both the fourth quarter of 2014 relative to the fourth quarter of 2013, as well as 2014 relative to 2013, is primarily related to increased production volumes in the Parkland and Tower areas where the majority of liquids volumes are currently transported by truck. ARC chooses to control its own transportation arrangements in order to move its product most efficiently to market. ARC has entered into additional pipeline transportation contracts in order to secure transportation of its products in future years. These contracts are included in Table 28 "Contractual Obligations and Commitments" in this MD&A and in Note 19 "Commitments and Contingencies" of ARC's financial statements for the year ended December 31, 2014.

G&A Expenses and Long-Term Incentive Compensation

G&A, prior to long-term incentive compensation expense and net of capitalized G&A and overhead recoveries on operated properties, increased by three per cent to $14.8 million in the fourth quarter of 2014 from $14.4 million in the fourth quarter of 2013. While G&A expenses before the impact of recoveries and capitalized G&A remained flat from the fourth quarter of 2013 to the fourth quarter of 2014, there was a three per cent reduction in capitalized G&A and overhead recoveries during the same period. This reduction is related to fewer operating recoveries from partners following a disposition of non-core assets in the second quarter of 2014.

For the year ended December 31, 2014, ARC's G&A, prior to long-term compensation expense and net of capitalized G&A and overhead recoveries on operated properties, was $59 million, a $0.5 million increase from the same period in 2013. The increase reflects increased staffing costs offset by higher capitalized G&A and recoveries from partners associated with higher capital spending.

Table 18 is a breakdown of G&A and long-term incentive compensation expenses:

Table 18

	Three Months Ended December 31			Twelve Months Ended December 31		
G&A and Long-term Incentive Compensation						
($ millions, except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
G&A expenses (1)	**27.1**	27.1	—	**107.1**	104.8	2
Capitalized G&A and overhead recoveries	**(12.3)**	(12.7)	(3)	**(48.1)**	(46.3)	4
G&A expenses before long-term incentive plans	**14.8**	14.4	3	**59.0**	58.5	1
G&A – long-term incentive plans (2)	**11.2**	9.9	13	**25.3**	38.6	(34)
Total G&A and long-term incentive compensation expenses	**26.0**	24.3	7	**84.3**	97.1	(13)
Total G&A and long-term incentive compensation expenses per boe	**2.40**	2.62	(8)	**2.06**	2.77	(26)

(1) Includes expenses recognized under the DSU Plan.
(2) Comprised of expenses recognized under the RSU, PSU and Stock Option Plans.

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

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

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

ARC recorded G&A expenses of $10.4 million during the fourth quarter of 2014 in accordance with the RSU and PSU Plan, as compared to $9.3 million during the fourth quarter of 2013. During the fourth quarter of 2014, ARC recognized additional compensation charges associated with a higher estimated performance multiplier for its PSU awards relative to what ARC had been estimating earlier in the year. The additional compensation charges associated with a higher performance multiplier estimate were partially offset by a reduction to the valuation of awards at December 31, 2014, as ARC's share price decreased to $25.16 per share at December 31, 2014 as compared to $29.55 at September 30, 2014.

For the year ended December 31, 2014, ARC recorded expenses related to the RSU and PSU Plan of $22.6 million, a decrease of $14.1 million or 38 per cent from the year ended December 31, 2013.This decrease reflects a decrease in ARC's share price from December 31, 2013 of $29.57 per share to $25.16 per share at December 31, 2014, which served to decrease the value of accrued awards.

During the year ended December 31, 2014, ARC made cash payments of $39.4 million in respect of the RSU and PSU Plan ($33.7 million for the year ended December 31, 2013). Of these payments, $28.9 million were in respect of amounts recorded to G&A expenses ($25 million for the year ended December 31, 2013) and $10.5 million were in respect of amounts recorded to operating expenses and capitalized as PP&E and E&E assets ($8.7 million for the year ended December 31, 2013). These amounts were accrued in prior periods.

Table 19 shows the changes to the RSU and PSU Plan during 2014:

Table 19

RSU and PSU Plan (number of units, thousands)	RSUs	PSUs (1)	Total RSUs and PSUs
Balance, December 31, 2013	638	1,492	2,130
Granted	327	494	821
Distributed	(299)	(435)	(734)
Forfeited	(41)	(38)	(79)
Balance, December 31, 2014	**625**	**1,513**	**2,138**

(1) Based on underlying units before performance multiplier.

The liability associated with the RSUs and PSUs granted is recognized in the statements 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 expenses are subject to greater volatility.

Due to the variability in the future payments under the plan, ARC estimates that between $16.3 million and $96.3 million will be paid out in 2015 through 2017 based on the current share price, accrued dividends, and ARC's market performance relative to its peers. Table 20 is a summary of the range of future expected payments under the RSU and PSU Plan based on variability of the performance multiplier and units outstanding under the RSU and PSU Plan as at December 31, 2014:

Table 20

Value of RSU and PSU Plan as at December 31, 2014	**Performance multiplier**		
(units thousands and $ millions, except per share)	**—**	**1.0**	**2.0**
Estimated units to vest			
RSUs	648	648	648
PSUs	—	1,590	3,180
Total units (1)	**648**	**2,238**	**3,828**
Share price (2)	25.16	25.16	25.16
Value of RSU and PSU Plan upon vesting (3)	**16.3**	**56.3**	**96.3**
2015	8.2	22.1	36.1
2016	5.4	19.2	33.0
2017	2.7	15.0	27.2

(1) Includes additional estimated units to be issued under the RSU and 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 $25.16, which is based on the closing share price at December 31, 2014.
(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 employees and consultants of ARC, vesting evenly on the fourth and fifth anniversaries of their respective grant dates, and have a maximum term of seven years. The option holder has the right to exercise the options at the original exercise price or at a reduced exercise price, equal to the exercise price at grant date less all dividends paid subsequent to the grant date and prior to the exercise date. On June 19, 2014, ARC granted 568,538 options to officers and certain employees at ARC.

At December 31, 2014, ARC had 2.5 million share options outstanding under this plan, representing less than one per cent of outstanding shares, with a weighted average exercise price of $23.43 per share. Compensation expense of $0.8 million has been recorded during the fourth quarter of 2014 ($2.7 million for the year ended December 31, 2014) compared to $0.6 million for the fourth quarter of 2013 ($1.9 million for the year ended December 31, 2013), and is included within G&A expenses.

Deferred Share Unit Plan

ARC has a DSU Plan for its non-employee directors under which each director receives a minimum of 60 per cent of their total annual remuneration in the form of 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. For the three and twelve months ended December 31, 2014, a G&A recovery of $0.5 million and a G&A expense of $0.8 million were recorded in relation to the DSU Plan, respectively (G&A expenses of $0.9 million and $2.4 million in 2013).

Interest and Financing Charges

Interest and financing charges increased 14 per cent to $12.9 million in the fourth quarter of 2014 from $11.3 million in the fourth quarter of 2013. For the year ended December 31, 2014, interest and financing charges were $47.3 million as compared to $42.5 million in 2013, an increase of 11 per cent. The increase in interest charges primarily reflects a higher average debt level held by ARC during the 2014 as compared to 2013. Average debt levels were lower in 2013 following an equity offering completed during the latter half of 2012 which served to finance a portion of ARC's 2013 capital program.

At December 31, 2014, ARC had $1,074.8 million of long-term debt outstanding, including a current portion of $49.5 million that is due for repayment within the next 12 months. Of the total debt balance, $991 million is fixed at a weighted average interest rate of 4.51 per cent, while the remaining $83.8 million incurs a floating interest rate based on market rates plus a current credit spread of 150 basis points. Approximately 87 per cent (US$809.7 million) of ARC's debt outstanding is denominated in US dollars.

Foreign Exchange Gains and Losses

ARC recorded a foreign exchange loss of $32.3 million in the fourth quarter of 2014 compared to a loss of $24.8 million in the fourth quarter of 2013. The loss is a result of the revaluation of ARC's US dollar denominated debt outstanding from the period of September 30, 2014 to December 31, 2014 and reflects the change in value of the US dollar relative to the Canadian dollar from $1.1208 to $1.1601.

For the year ended December 31, 2014, ARC recorded a foreign exchange loss of $73.7 million compared to a loss of $49.2 million for the same period in the prior year. During 2014, the value of the US dollar relative to the Canadian dollar increased from $1.0636 at December 31, 2013 to $1.1601 at December 31, 2014 which ultimately increased the Canadian dollar equivalent of ARC's US dollar debt obligation. In 2013, the value of the US dollar relative to the Canadian dollar increased to a lesser extent, increasing from $0.9949 at December 31, 2012 to $1.0636 at December 31, 2013. Additionally, as ARC's average debt balance was higher in 2014 than in 2013, a larger foreign exchange loss was recognized in 2014.

Table 21 shows the various components of foreign exchange losses:

Table 21

	Three Months Ended December 31			Twelve Months Ended December 31		
Foreign Exchange Gains and Losses ($ millions)	**2014**	2013	% Change	**2014**	2013	% Change
Unrealized loss on US denominated debt	**(32.7)**	(24.8)	32	**(73.8)**	(48.9)	51
Realized gain (loss) on US denominated transactions	**0.4**	—	—	**0.1**	(0.3)	(133)
Total foreign exchange loss	**(32.3)**	(24.8)	30	**(73.7)**	(49.2)	50

Taxes

ARC recorded a current income tax expense of $6.3 million in the fourth quarter of 2014 ($70.3 million expense for the year ended December 31, 2014) compared to a current tax recovery of $6.4 million during the fourth quarter of 2013 ($16.3 million expense for the year ended December 31, 2013). The increases in current taxes for both the fourth quarter and the year ended December 31, 2014 compared to the same periods in 2013 reflect higher annual taxable income for 2014 related to increased average commodity prices and production volumes.

During the fourth quarter of 2014, a deferred income tax expense of $23.5 million was recorded ($59.1 million expense for the year ended December 31, 2014) compared to an expense of $15.1 million in the fourth quarter of 2013 ($77.9 million expense for the year ended December 31, 2013). For the three months ended December 31, 2014 as compared to the three months ended December 31, 2013, ARC's increase in deferred tax expense is related primarily to an increase in unrealized gains on risk management contracts partially offset by temporary differences arising from the book basis of ARC's PP&E relative to its tax basis. For the year ended December 31, 2014 as compared to the year ended December 31, 2013, ARC's decrease in deferred tax expense is related primarily to a net increase in the ARO liability and temporary differences arising from the book basis of ARC's PP&E relative to its tax basis, partially offset by an increase in unrealized gains on risk management contracts.

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

Table 22

Income Tax Pool Type ($ millions)	**December 31, 2014**	**Annual Deductibility**
Canadian oil and gas property expense	710.9	10% declining balance
Canadian development expense	974.6	30% declining balance
Canadian exploration expense	—	100%
Undepreciated capital cost	834.5	Primarily 25% declining balance
Other	10.8	Various rates, 7% declining balance to 20%
Total federal tax pools	2,530.8	
Additional Alberta tax pools	19.9	Various rates, 25% declining balance to 100%

DD&A Expense and Impairment Charges

ARC records DD&A expense on its PP&E over the individual useful lives of the assets 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 E&E phase are not amortized. For the three and twelve months ended December 31, 2014, ARC recorded DD&A expense prior to any impairment of $176.4 million and $655.5 million as compared to $157 million and $551.9 million for three and twelve months ended December 31, 2013, reflecting increased production volumes as well as increased capital spending on infrastructure as ARC continues to develop its own infrastructure to facilitate production in high-growth areas.

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less cost to sell. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. At December 31, 2014, an impairment charge of $103 million was recognized associated with assets located in the northern Alberta area as a result of lower forward commodity pricing. There were no impairment charges or recoveries recorded in 2013. See Note 5 "Management Judgments and Estimation Uncertainty" to ARC's financial statements for the year ended December 31, 2014 for further information regarding the estimation of recoverability of asset carrying values at December 31, 2014. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

A breakdown of DD&A expense is summarized in Table 23:

Table 23

	Three Months Ended December 31			Twelve Months Ended December 31		
DD&A Expense ($ millions, except per boe amounts)	**2014**	2013	% Change	**2014**	2013	% Change
Depletion of oil and gas assets	**174.7**	155.5	12	**649.2**	545.4	19
Depreciation of administrative assets	**1.7**	1.5	13	**6.3**	6.5	(3)
Impairment charges	**103.0**	—	100	**103.0**	—	100
Total DD&A expense and impairment charges	**279.4**	157.0	78	**758.5**	551.9	37
DD&A rate before impairment per boe	**16.25**	16.92	(4)	**15.98**	15.74	17
DD&A and impairment rate per boe	**25.74**	16.92	52	**18.49**	15.74	17

For the year ended December 31, 2014, ARC recorded an impairment of $28.2 million on a Southeast Saskatchewan E&E project prior to its transfer to PP&E, based on a recoverable amount of $9 million as at September 30, 2014. The impairment charge was recorded as part of intangible E&E expenses in the statements of income.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures before acquisitions, dispositions or purchases of undeveloped land totaled $249.3 million in the fourth quarter of 2014 as compared to $207.7 million during the fourth quarter of 2013. This total includes development and production additions to PP&E of $245.6 million and additions to E&E assets of $3.7 million. PP&E expenditures include additions to oil and gas development and production assets and administrative assets. E&E expenditures include asset additions in areas that have been determined by Management to be in the E&E stage.

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

Table 24

	Three Months Ended December 31						
	2014			2013			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**—**	**4.7**	**4.7**	0.2	6.4	6.6	(29)
Drilling and completions	**2.5**	**161.9**	**164.4**	9.1	131.8	140.9	17
Plant and facilities	**1.2**	**77.0**	**78.2**	1.3	57.5	58.8	33
Administrative assets	**—**	**2.0**	**2.0**	—	1.4	1.4	43
Total capital expenditures	**3.7**	**245.6**	**249.3**	10.6	197.1	207.7	20
Undeveloped land purchased at Crown land sales	**0.6**	**17.4**	**18.0**	—	3.5	3.5	414
Total capital expenditures including undeveloped land purchases	**4.3**	**263.0**	**267.3**	10.6	200.6	211.2	27
Acquisitions (1)	**—**	**—**	**—**	8.6	3.8	12.4	(100)
Dispositions (2)	**—**	**(2.4)**	**(2.4)**	—	0.5	0.5	(580)
Total capital expenditures, land purchases and net acquisitions and dispositions	**4.3**	**260.6**	**264.9**	19.2	204.9	224.1	18

(1) Value is net of post-closing adjustments.
(2) Represents proceeds and adjustments to proceeds from divestitures.

For the year ended December 31, 2014, capital expenditures before property acquisitions, dispositions or purchases of undeveloped land totaled $945.5 million as compared to $859.9 million during the same period of 2013. This total includes development and production additions to PP&E of $897.5 million (2013 - $845.1 million) and additions to E&E assets of $48 million (2013 - $14.8 million).

Table 24a

	Twelve Months Ended December 31						
	2014			2013			
Capital Expenditures ($ millions)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total	% Change
Geological and geophysical	**1.4**	**16.2**	**17.6**	0.3	18.9	19.2	(8)
Drilling and completions	**30.8**	**629.2**	**660.0**	12.9	555.5	568.4	16
Plant and facilities	**15.8**	**245.6**	**261.4**	1.6	266.1	267.7	(2)
Administrative assets	**—**	**6.5**	**6.5**	—	4.6	4.6	41
Total capital expenditures	**48.0**	**897.5**	**945.5**	14.8	845.1	859.9	10
Undeveloped land purchased at Crown land sales	**1.4**	**60.9**	**62.3**	0.2	14.1	14.3	336
Total capital expenditures including undeveloped land purchases	**49.4**	**958.4**	**1,007.8**	15.0	859.2	874.2	15
Acquisitions (1)	**1.8**	**71.7**	**73.5**	13.6	22.8	36.4	102
Dispositions (2)	**(1.8)**	**(37.5)**	**(39.3)**	—	(89.8)	(89.8)	(56)
Total capital expenditures, land purchases and net acquisitions and dispositions	**49.4**	**992.6**	**1,042.0**	28.6	792.2	820.8	27

(1) Value is net of post-closing adjustments.
(2) Represents proceeds and adjustments to proceeds from divestitures.

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 contributions from DRIP, SDP, and debt. ARC financed 70 per cent of the $267.3 million fourth quarter capital program with funds from operations and contributions from DRIP and SDP (80 per cent in the fourth quarter of 2013).

Table 25

	Three Months Ended December 31					
	2014			2013		
Source of Funding of Capital Expenditures and Net Acquisitions and Dispositions ($ millions)	**Capital Expenditures including Land Purchases**	**Net Acquisitions**	**Total Expenditures**	Capital Expenditures including Land Purchases	Net Dispositions	Total Expenditures
Expenditures (1)	**267.3**	**(2.4)**	**264.9**	211.2	12.9	224.1
Funds from operations, net (%) (2)	**55**	**—**	**55**	64	—	60
Contributions from DRIP and SDP (%)	**15**	**—**	**15**	16	—	15
Debt (%)	**30**	**100**	**30**	20	100	25
Total (%)	**100**	**100**	**100**	100	100	100

(1) Excludes capital expenditures attributable to non-cash stock options.
(2) Refer to the sections entitled "Funds from Operations" and "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 25a

	Twelve Months Ended December 31					
	2014			2013		
Source of Funding of Capital Expenditures and Net Acquisitions and Dispositions ($ millions)	**Capital Expenditures including Land Purchases**	**Net Acquisitions**	**Total Expenditures**	Capital Expenditures including Land Purchases	Net Dispositions	Total Expenditures
Expenditures (1)	**1,007.6**	**34.2**	**1,041.8**	874.2	(53.4)	820.8
Funds from operations, net (%) (2)	**71**	**—**	**69**	53	—	57
Contributions from DRIP and SDP (%)	**15**	**—**	**14**	15	—	16
Debt (%)	**14**	**100**	**17**	32	100	27
Total (%)	**100**	**100**	**100**	100	100	100

(1) Excludes capital expenditures attributable to non-cash stock options.

(2) Refer to the sections entitled "Funds from Operations" and "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.

Asset Retirement Obligations and Reclamation Fund

At December 31, 2014, ARC has recorded an ARO liability of $616.1 million ($475.4 million at December 31, 2013) for the future abandonment and reclamation of ARC's properties. The estimated ARO liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred, as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at a liability-specific risk-free interest rate of 2.3 per cent (3.2 per cent at December 31, 2013).

Accretion charges of $3.7 million and $14.9 million for the three and twelve months ended December 31, 2014 ($3.1 million and $12.5 million for 2013), respectively, have been recognized in the 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, 2014 was $8.7 million and $23 million ($8 million and $18.5 million for 2013), respectively.

In 2005, ARC established a restricted reclamation fund to finance obligations specifically associated with its Redwater property. Minimum contributions to this fund will be approximately $64 million in total over the next 41 years. The balance of this fund totaled $35.2 million at December 31, 2014, compared to $32.6 million at December 31, 2013. Under the terms of ARC's investment policy, cash in the reclamation fund can only be invested in certain securities and require a minimum credit rating for investments of A or higher.

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, 2014 and December 31, 2013 is outlined in Table 26:

Table 26

Capital Structure and Liquidity ($ millions, except per cent and ratio amounts)	December 31, 2014	December 31, 2013
Long-term debt (1)	**1,074.8**	901.3
Working capital deficit (2)	**181.1**	110.2
Net debt obligations (3)	**1,255.9**	1,011.5
Market value of common shares (4)	**8,036.1**	9,287.9
Total capitalization (3)	**9,292.0**	10,299.4
Net debt as a percentage of total capitalization	**13.5**	9.8
Net debt to annual funds from operations (3)	**1.1**	1.2

(1) Includes a current portion of long-term debt of $49.5 million at December 31, 2014 and $42.1 million at December 31, 2013.
(2) Working capital deficit is calculated as current liabilities less current assets as they appear on the consolidated balance sheets (the "balance sheets"), and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and ARO contained within liabilities associated with assets held for sale, as well as the current portion of long-term debt and current portion of ARO.
(3) Refer to the section entitled "Additional GAAP Measures" contained within this MD&A.
(4) Calculated using the total common shares outstanding at December 31, 2014 multiplied by the closing share price of $25.16 at December 31, 2014 (closing share price of $29.57 at December 31, 2013).

At December 31, 2014, ARC had total available credit facilities of approximately $2.2 billion with debt of $1,074.8 million currently drawn. After its $181.1 million working capital deficit, ARC has available credit of $916.4 million. ARC's long-term debt balance includes a current portion of $49.5 million at December 31, 2014 ($42.1 million at December 31, 2013), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by drawing on its syndicated credit facility at the time the payments are due.

On September 25, 2014, ARC issued US$150 million of long-term fixed-rate notes through a private placement. Proceeds from the notes were used to pay down indebtedness under ARC's credit facility. The notes have a 12 year amortization term with a 10 year average life and a fixed-rate coupon of 3.72 per cent. Concurrently, ARC increased the Master Shelf Agreement from a maximum of US$225 million to US$350 million and extended the term for an additional three years commencing September 25, 2014.

On January 29, 2015, ARC issued 17.9 million common shares for aggregate gross proceeds of approximately $402 million (net proceeds of approximately $385 million) on a bought deal basis. The proceeds from this offering will be used to temporarily reduce bank indebtedness, increase working capital and to fund ongoing capital expenditure programs.

ARC's debt agreements contain a number of covenants, all of which were met as at December 31, 2014. These agreements are available at www.sedar.com. ARC calculates its covenants four times annually. The major financial covenants are described below:

Table 27

Covenant description	Estimated Position at December 31, 2014 (1)
Long-term debt and letters of credit not to exceed three and a quarter times annualized net income before non-cash items, income taxes and interest expense	0.9
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	0.9
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 net debt between one and 1.5 times funds from operations and less than 20 per cent of total capitalization. This strategy has resulted in manageable debt levels to date and has positioned ARC to remain well within its debt covenants.

ARC typically uses three markets to raise capital: equity, bank debt and long-term notes. Long-term notes are issued to large institutional investors normally with an average term of five to 12 years. The cost of this debt is based upon two factors: the current rate of long-term government bonds and ARC's credit spread. ARC's weighted average interest rate on its outstanding long-term notes is currently 4.51 per cent.

Shareholders' Equity

At December 31, 2014, there were 319.4 million shares outstanding, an increase of 5.3 million shares over the balance of shares issued at December 31, 2013. The increase was attributable to shares issued to participants in the DRIP and SDP.

At December 31, 2014, ARC had 2.5 million share options outstanding under its Share Option Plan, representing less than one per cent of outstanding shares, with a weighted average exercise price of $23.43 per share. These options vest in equal parts on the fourth and fifth anniversaries of the grant date. The first tranche will vest on March 24, 2015.

Dividends

In the fourth quarter of 2014, ARC declared dividends totaling $95.7 million ($0.30 per share) compared to $94 million ($0.30 per share) during the fourth quarter of 2013.

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

- To maintain a dividend policy that, in normal times, in the opinion of Management and the Board, is sustainable after factoring in the impact of current commodity prices on funds from operations. ARC's objective is to normalize the effect of volatility of commodity prices rather than to pass that volatility onto shareholders in the form of fluctuating monthly dividends.

- To maintain ARC's financial flexibility, by reviewing ARC's level of debt to equity and debt to funds from operations. The use of funds from operations and proceeds from equity offerings to fund capital development activities reduces the need to use debt to finance these expenditures.

ARC is focused on value creation, with the dividend being a key component of its business strategy. ARC believes that it is positioned to sustain current dividend levels despite the volatile commodity price environment. ARC's fourth quarter dividend was 38 per cent of funds from operations (34 per cent of funds from operations for the year ended December 31, 2014).

ARC's Board of Directors approved a modification to the DRIP and SDP wherein the discount applicable to common shares acquired or issued under both plans was reduced to three per cent from five per cent. The change took effect for the September 15, 2014 dividend payment for shareholders on record as of August 29, 2014.

The actual amount of future monthly dividends is proposed by Management and is subject to the approval and discretion of the Board. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results. Dividends are taxable to the shareholder irrespective of whether payment is received in cash or shares via the DRIP. In the case of shares issued via the SDP, dividends received are converted to a future capital gain to the recipient. Shareholders should consult their own tax advisors with respect to tax implications of dividends received in cash or via the DRIP or SDP in their particular circumstances.

On January 16, 2015, ARC confirmed that a dividend of $0.10 per common share designated as an eligible dividend will be paid on February 17, 2015 to shareholders of record on January 30, 2015 with an ex-dividend date of January 28, 2015.

Please refer to ARC's website at www.arcresources.com for details of the estimated monthly dividend amounts and dividend dates for 2014.

Environmental Initiatives Impacting ARC

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

Contractual Obligations and Commitments

Table 28 discloses ARC's contractual obligations and commitments at December 31, 2014 and the associated minimum future payments:

Table 28

	Payments Due by Period				
Contractual Obligations and Commitments ($ millions)	**1 Year**	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	49.5	94.0	220.7	710.6	1,074.8
Interest payments (2)	43.5	78.8	66.4	88.7	277.4
Reclamation fund contributions (3)	3.4	6.4	6.0	48.4	64.2
Purchase commitments	27.0	19.4	13.6	8.2	68.2
Transportation commitments	67.2	137.7	113.6	260.7	579.2
Operating leases	15.8	29.4	27.1	58.6	130.9
Risk management contract premiums (4)	0.8	9.6	0.5	—	10.9
Total contractual obligations and commitments	**207.2**	**375.3**	**447.9**	**1,175.2**	**2,205.6**

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

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 15 "Financial Instruments and Market Risk Management" of the financial statements). As the premiums are related to the underlying risk management contract, they have been recorded at fair market value at December 31, 2014 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 expenditures in a future period.

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

Off-Balance Sheet Arrangements

ARC has certain lease agreements, all of which are reflected in the Contractual Obligations and Commitments table (Table 28), 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, 2014.

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 expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A charges that are based on estimates of oil and gas reserves that ARC expects to recover in the future;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying commodity prices, foreign exchange rates and interest rates, volatility curves and the risk of non-performance;
- estimated value of asset retirement obligations that are dependent upon estimates of future costs and timing of expenditures;

- estimated future recoverable value of PP&E 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 financial statements, refer to Note 5 "Management Judgments and Estimation Uncertainty" in the audited consolidated financial statements for the years ended December 31, 2014 and 2013.

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

ASSESSMENT OF BUSINESS RISKS

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

Volatility of Oil and Natural Gas Prices

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

Refinancing and Debt Service

ARC currently has a $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 November 6, 2018, 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 $991 million of long-term, fixed interest rate debt outstanding which requires principal repayments in 2015 through 2026. ARC intends to fund these principal repayments with existing credit facilities. In the event ARC is unable to fund future principal repayments, it may impact ARC's ability to fund its ongoing operations and make future dividend payments.

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

Access to Capital Markets

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

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

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

Retention of Key Personnel

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

Operational Matters

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

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

Reserves and Resources Estimates

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

Counterparty Risk

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

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in an increase in the amount ARC pays to service debt. World oil prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact ARC's net production revenue. Volatility in interest rates and the Canadian dollar may affect future cash 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 crude 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 crude oil, natural gas, condensate and NGLs, future prices of crude oil, natural gas, condensate and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the operators of the working interests, Management and ARC. In particular, changes in the prices of and markets for crude oil, natural gas, condensate and NGLs from those anticipated at the time of making such assessments will affect the amount of future dividends and the value of the shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves than attributed to the working interests. Actual reserves could vary materially from these estimates. Consequently, the reserves acquired may be less than expected, which could adversely impact cash flow and dividends to shareholders.

Environmental Concerns

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 favor 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.

The use of fracture 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.

PROJECT RISKS

ARC manages a variety of small and large projects and plans to continue with the development of several capital projects throughout 2015. Project delays may impact expected revenues from operations. Significant project cost overruns could make a project uneconomic. ARC's ability to execute projects and market oil and natural gas depends upon numerous factors beyond its control, including:

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- supply of and demand for 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; and
- availability and productivity of skilled labour.

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

Disclosure Controls and Procedures

As of December 31, 2014, 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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that ARC's internal control over financial reporting was effective as of December 31, 2014. The effectiveness of ARC's internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, as reflected in their report for 2014. No changes were made to ARC's internal control over financial reporting during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

FINANCIAL REPORTING UPDATE

Changes in Accounting Policies

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments impact ARC's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on ARC's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on ARC's financial statements.

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by ARC on January 1, 2017 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by ARC on January 1, 2018 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

Non-GAAP Measures

Management uses certain key performance indicators ("KPIs") and industry benchmarks such as operating netbacks ("netbacks"), operating income, finding, development and acquisition costs, 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

All additional GAAP Measures described below do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

Funds from Operations
Funds from operations is defined as net income excluding the impact of non-cash DD&A and impairment charges, accretion of ARO, E&E expense, deferred tax expense and recovery, unrealized gains and losses on risk management contracts, unrealized gains and losses on foreign exchange, gains on disposal of petroleum and natural gas properties, unrealized gains and losses on short-term investments, non-cash lease inducement charges, share option expense, and is further adjusted to include any portion of unrealized gains and losses on risk management contracts settled annually that relate to current period 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.

Net Debt
Net debt is defined as long-term debt plus working capital surplus or deficit. Working capital surplus or deficit is calculated as current liabilities less current assets as they appear on the balance sheets, and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and ARO contained within liabilities associated with assets held for sale, as well as the current portion of long-term debt and current portion of ARO.

Total Capitalization
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 Ltd.," ARC's view of future crude oil, natural gas, condensate and NGLs pricing under the heading "Economic Environment," ARC's guidance for 2015 under the heading "2014 Annual Guidance and Financial Highlights," ARC's intentions in the future regarding hedging under the heading "Risk Management," ARC's view as to the increased transportation costs under the heading "Operating and Transportation Expenses," the estimated future payments under the RSU and PSU Plan under the heading "Long-Term Incentive Plans – Restricted Share Unit & Performance Share Unit Plan, Share Option Plan, and Deferred Share Unit Plan," the information relating to the 2015 capital program under the heading "Capital Expenditures, Acquisitions and Dispositions," the financing information relating to raising capital under the heading "Capitalization, Financial Resources and Liquidity," ARC's belief in relation to maintaining current dividend levels under the heading "Dividends," ARC's estimates of normal course obligations under the heading "Contractual Obligations and Commitments," and a number of other matters, including the amount of future asset retirement obligations, future liquidity and financial capacity, future results from operations and operating metrics, future costs, expenses and royalty rates, future interest costs, and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this MD&A reflect 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 ($ millions, except per share amounts)	2014	2013	2012	2011	2010
FINANCIAL					
Sales of crude oil, natural gas, condensate and NGLs	**2,107.7**	1,624.3	1,389.4	1,438.2	1,213.7
Per share (1)	**6.66**	5.21	4.67	5.02	4.67
Per share, diluted (1)	**6.64**	5.21	4.67	5.02	4.59
Funds from operations (2)	**1,124.0**	861.8	719.8	844.3	667.0
Per share (1)	**3.55**	2.77	2.42	2.95	2.57
Per share, diluted (1)	**3.54**	2.76	2.42	2.95	2.52
Net income and comprehensive income	**380.8**	240.7	139.2	287.0	212.2
Per share (1)	**1.20**	0.77	0.47	1.00	0.82
Per share, diluted (1)	**1.20**	0.77	0.47	1.00	0.80
Operating income (3)	**390.3**	224.9	163.1	293.5	235.6
Per share (1)	**1.23**	0.72	0.55	1.02	0.91
Per share, diluted (1)	**1.23**	0.72	0.55	1.02	0.88
Dividends declared	**380.2**	374.0	357.4	344.0	313.5
Per share (1)	**1.20**	1.20	1.20	1.20	1.20
Total assets	**6,325.5**	5,736.0	5,627.1	5,323.9	5,060.1
Total liabilities	**2,773.7**	2,339.9	2,230.4	2,162.1	1,947.7
Net debt outstanding (4)	**1,255.9**	1,011.5	745.6	909.7	871.0
Weighted average shares outstanding	**316.6**	311.5	297.2	286.6	259.9
Weighted average shares outstanding, diluted	**317.2**	311.9	297.2	286.6	264.2
Shares outstanding, end of period	**319.4**	314.1	308.9	288.9	284.4
CAPITAL EXPENDITURES					
Geological and geophysical	17.6	19.2	31.8	25.9	16.0
Drilling and completions	660.0	568.4	429.8	456.5	358.5
Plant and facilities	261.4	267.7	131.6	165.1	131.4
Other	6.5	4.6	5.3	3.6	24.1
Total capital expenditures	945.5	859.9	598.5	651.1	530.0
Undeveloped land purchased at Crown land sales	62.3	14.3	9.5	74.9	60.9
Total capital expenditures including undeveloped land purchases	1,007.8	874.2	608.0	726.0	590.9
Acquisitions	73.5	36.4	36.5	57.1	8.9
Dispositions	(39.3)	(89.8)	(4.1)	(168.4)	(3.9)
Corporate acquisitions	—	—	—	—	652.1
Total capital expenditures and net acquisitions	1,042.0	820.8	640.4	614.7	1,248.0
OPERATING					
Production					
Crude oil (bbl/d)	**36,525**	32,784	31,454	27,158	27,341
Condensate (bbl/d)	**3,667**	2,251	2,217	2,052	1,617
Natural gas (mmcf/d)	**406.1**	349.4	342.9	310.6	254.2
NGLs (bbl/d)	**4,518**	2,811	2,728	2,444	2,628
Total (boe/d)	**112,387**	96,087	93,546	83,416	73,954
Average realized prices, prior to hedging					
Crude oil ($/bbl)	**90.64**	88.90	82.03	89.51	73.85
Condensate ($/bbl)	**93.81**	94.13	92.63	96.07	77.40
Natural gas ($/mcf)	**4.76**	3.45	2.62	3.83	4.21
NGLs ($/bbl)	**39.45**	36.25	38.11	47.53	39.57
Oil equivalent ($/boe)	**51.31**	46.31	40.50	47.15	44.88
RESERVES (company gross) (5)					
Proved plus probable reserves					
Crude oil and NGLs (mbbl)	**192,489**	194,064	185,548	170,153	165,963
Natural gas (bcf)	**2,881.6**	2,638.8	2,528.6	2,413.3	1,914.9
Total (mboe)	**672,748**	633,864	606,982	572,374	485,121
TRADING STATISTICS ($, based on intra-day trading)					
High	**33.68**	29.95	26.25	28.67	26.04
Low	**22.70**	23.12	18.36	19.40	18.77
Close	**25.16**	29.57	24.44	25.10	25.41
Average daily volume (thousands)	**1,344**	1,064	1,356	1,251	1,197

(1) 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 weighted average shares outstanding during the period.
(2) Refer to the sections entitled "Funds from Operations" and "Additional GAAP Measures" contained within this MD&A.
(3) Refer to the sections entitled "Operating Income" and "Non-GAAP Measures" contained within this MD&A.
(4) Refer to the sections entitled "Capitalization, Financial Resources and Liquidity" and "Additional GAAP Measures" contained within this MD&A.
(5) Company gross reserves are the gross interest reserves prior to the deduction of royalty burdens.

QUARTERLY HISTORICAL REVIEW

($ millions, except per share amounts)	2014				2013			
FINANCIAL	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales of crude oil, natural gas, condensate, NGLs and other income	**454.1**	**535.2**	**567.0**	**551.4**	425.0	417.4	403.4	378.5
Per share, basic (1)	**1.43**	**1.69**	**1.79**	**1.75**	1.36	1.34	1.30	1.22
Per share, diluted (1)	**1.42**	**1.68**	**1.79**	**1.75**	1.35	1.34	1.30	1.22
Funds from operations (2)	**251.7**	**284.2**	**295.8**	**292.3**	237.8	220.4	201.2	202.4
Per share, basic (1)	**0.79**	**0.90**	**0.94**	**0.93**	0.76	0.71	0.65	0.65
Per share, diluted (1)	**0.79**	**0.89**	**0.93**	**0.93**	0.76	0.71	0.65	0.65
Net income and comprehensive income	**113.7**	**90.3**	**147.4**	**29.4**	13.6	86.9	93.3	46.9
Per share, basic (1)	**0.36**	**0.28**	**0.47**	**0.09**	0.04	0.28	0.30	0.15
Per share, diluted (1)	**0.36**	**0.28**	**0.47**	**0.09**	0.04	0.28	0.30	0.15
Operating income (3)	**64.5**	**90.1**	**118.7**	**117.0**	50.0	73.3	53.9	47.6
Per share, basic (1)	**0.20**	**0.28**	**0.37**	**0.37**	0.16	0.23	0.17	0.15
Per share, diluted (1)	**0.20**	**0.28**	**0.37**	**0.37**	0.16	0.23	0.17	0.15
Dividends declared	**95.7**	**95.2**	**94.8**	**94.5**	94.0	93.7	93.4	92.9
Per share (1)	**0.30**	**0.30**	**0.30**	**0.30**	0.30	0.30	0.30	0.30
Total assets	**6,325.5**	**6,095.5**	**5,988.7**	**5,949.5**	5,736.0	5,599.2	5,548.1	5,612.7
Total liabilities	**2,773.7**	**2,603.5**	**2,531.1**	**2,580.7**	2,339.9	2,156.6	2,132.6	2,229.9
Net debt outstanding (4)	**1,255.9**	**1,152.8**	**1,061.9**	**1,096.0**	1,011.5	936.5	883.7	855.1
Weighted average shares outstanding	**318.6**	**317.2**	**315.9**	**314.7**	313.5	312.2	310.9	309.6
Weighted average shares outstanding, diluted	**319.1**	**317.8**	**316.6**	**315.2**	313.9	312.5	311.2	309.8
Shares outstanding, end of period	**319.4**	**317.8**	**316.5**	**315.3**	314.1	312.8	311.5	310.2
CAPITAL EXPENDITURES								
Geological and geophysical	**4.7**	**3.5**	**3.5**	**5.9**	6.6	4.5	3.1	5.0
Drilling and completions	**164.4**	**154.9**	**181.6**	**159.1**	140.9	179.2	106.7	141.6
Plant and facilities	**78.2**	**58.8**	**49.4**	**75.0**	58.8	65.6	59.8	83.5
Administrative assets	**2.0**	**1.0**	**1.6**	**2.0**	1.4	1.0	1.1	1.1
Total capital expenditures	**249.3**	**218.2**	**236.1**	**242.0**	207.7	250.3	170.7	231.2
Undeveloped land purchased at Crown land sales	**18.0**	**21.9**	**16.6**	**5.8**	3.5	8.9	0.7	1.2
Total capital expenditures including undeveloped land purchases	**267.3**	**240.1**	**252.7**	**247.8**	211.2	259.2	171.4	232.4
Acquisitions	**—**	**37.3**	**5.5**	**30.7**	12.4	12.6	2.4	9.0
Dispositions	**(2.4)**	**(5.1)**	**(31.8)**	**—**	0.5	(53.6)	(28.2)	(8.5)
Total capital expenditures, land purchases and net acquisitions and dispositions	**264.9**	**272.3**	**226.4**	**278.5**	224.1	218.2	145.6	232.9
OPERATING								
Production								
Crude oil (bbl/d)	**37,442**	**35,871**	**35,317**	**37,478**	35,542	31,438	31,635	32,505
Condensate (bbl/d)	**3,448**	**3,862**	**4,462**	**2,887**	2,580	2,235	2,150	2,032
Natural gas (mmcf/d)	**432.1**	**424.5**	**397.2**	**369.6**	359.4	348.9	340.8	348.6
NGLs (bbl/d)	**5,075**	**5,056**	**4,179**	**3,743**	2,868	2,687	2,859	2,831
Total (boe/d)	**117,986**	**115,530**	**110,165**	**105,699**	100,883	94,515	93,436	95,472
Average realized prices, prior to hedging								
Crude oil ($/bbl)	**72.49**	**93.34**	**102.14**	**95.58**	82.85	101.43	89.18	83.00
Condensate ($/bbl)	**74.04**	**95.55**	**103.72**	**100.11**	88.72	96.70	91.08	101.53
Natural gas ($/mcf)	**4.15**	**4.46**	**4.99**	**5.60**	3.61	2.94	3.89	3.37
NGLs ($/bbl)	**32.69**	**39.61**	**39.51**	**48.54**	41.47	36.80	29.25	37.48
Oil equivalent ($/boe)	**41.78**	**50.28**	**56.44**	**57.91**	45.51	47.94	47.36	43.84
TRADING STATISTICS								
($, based on intra-day trading)								
High	**29.85**	**32.60**	**33.68**	**30.66**	29.95	28.65	28.90	27.64
Low	**22.70**	**28.54**	**30.30**	**27.52**	25.68	24.71	25.73	23.12
Close	**25.16**	**29.55**	**32.49**	**30.45**	29.57	26.27	27.53	26.84
Average daily volume (thousands)	**1,886**	**1,205**	**1,037**	**1,248**	1,030	1,004	1,074	1,151

(1) 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 weighted average shares outstanding during the period.
(2) Refer to the sections entitled "Funds from Operations" and "Additional GAAP Measures" contained within this MD&A.
(3) Refer to the sections entitled "Operating Income" and "Non-GAAP Measures" contained within this MD&A.
(4) Refer to the sections entitled "Capitalization, Financial Resources and Liquidity" and "Additional GAAP Measures" contained within this MD&A.

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, 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 (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014. The Company's internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, the Company's Chartered Accountants, who also audited the Company's consolidated financial statements for the year ended December 31, 2014.

Myron M. Stadnyk	P. Van R. Dafoe
President and Chief Executive Officer	Senior Vice-President and Chief Financial Officer

Calgary, Alberta

February 11, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 (the "Company"), which comprise the consolidated balance sheets as at December 31, 2014 and 2013 and the consolidated statements of income and 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 the Company as at December 31, 2014 and 2013 and its 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), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

"Deloitte LLP"
Chartered Accountants
February 11, 2015
Calgary, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* 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 International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* 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, 2014 of the Company and our report dated February 11, 2015 expressed an unqualified opinion on those financial statements.

Deloitte LLP

"Deloitte LLP"
Chartered Accountants
February 11, 2015
Calgary, Canada

ARC RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

(Cdn$ millions)	**December 31, 2014**	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents (Note 6)	**7.1**	—
Short-term investment	**3.6**	3.6
Accounts receivable	**165.0**	176.5
Prepaid expenses	**14.3**	15.6
Risk management contracts (Note 15)	**131.8**	4.4
Assets held for sale (Note 10)	**5.8**	—
	327.6	200.1
Reclamation fund (Note 8)	**35.2**	32.6
Risk management contracts (Note 15)	**128.0**	61.2
Intangible exploration and evaluation assets (Note 9)	**266.4**	265.4
Property, plant and equipment (Note 10)	**5,320.1**	4,928.5
Goodwill	**248.2**	248.2
Total assets	**6,325.5**	5,736.0
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**339.1**	274.5
Current portion of long-term debt (Note 12)	**49.5**	42.1
Current portion of asset retirement obligations (Note 13)	**13.0**	25.1
Dividends payable	**32.0**	31.4
Risk management contracts (Note 15)	**1.0**	12.9
Liabilities associated with assets held for sale (Note 13)	**5.5**	—
	440.1	386.0
Risk management contracts (Note 15)	**1.0**	0.6
Long-term debt (Note 12)	**1,025.3**	859.2
Long-term incentive compensation liability (Note 18)	**29.1**	26.1
Other deferred liabilities	**15.8**	17.5
Asset retirement obligations (Note 13)	**603.1**	450.3
Deferred taxes (Note 16)	**659.3**	600.2
Total liabilities	**2,773.7**	2,339.9
Commitments and contingencies (Note 19)		
SHAREHOLDERS' EQUITY		
Shareholders' capital	**3,951.1**	3,800.8
Contributed surplus	**8.6**	3.8
Deficit	**(407.9)**	(408.5)
Total shareholders' equity	**3,551.8**	3,396.1
Total liabilities and shareholders' equity	**6,325.5**	5,736.0

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

M Van Wielingen

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

Kathleen O'Neill

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

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

(Cdn$ millions, except per share amounts)	**2014**	2013
REVENUE		
Sales of crude oil, natural gas, condensate, natural gas liquids and other income	**2,107.7**	1,624.3
Royalties	**(298.0)**	(223.1)
	1,809.7	1,401.2
Gain on risk management contracts (Note 15)	**176.2**	46.3
	1,985.9	1,447.5
EXPENSES		
Transportation	**91.6**	60.2
Operating	**364.2**	338.7
Intangible exploration and evaluation expenses (Note 9)	**39.4**	1.3
General and administrative	**84.3**	97.1
Interest and financing charges	**47.3**	42.5
Accretion of asset retirement obligations (Note 13)	**14.9**	12.5
Depletion, depreciation, amortization and impairment (Note 10)	**758.5**	551.9
Loss on foreign exchange	**73.7**	49.2
Gain on short-term investment	**—**	(1.9)
Loss (gain) on disposal of petroleum and natural gas properties	**1.8**	(38.9)
	1,475.7	1,112.6
Provision for income taxes (Note 16)		
Current	**70.3**	16.3
Deferred	**59.1**	77.9
	129.4	94.2
Net income and comprehensive income	**380.8**	240.7
Net income per share (Note 17)		
Basic	**1.20**	0.77
Diluted	**1.20**	0.77

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(Cdn$ millions)	**Shareholders' Capital**	**Contributed Surplus**	**Deficit**	**Total Shareholders' Equity**
December 31, 2012	3,670.2	1.7	(275.2)	3,396.7
Shares issued for cash	0.5	—	—	0.5
Shares issued pursuant to the dividend reinvestment program	115.4	—	—	115.4
Shares issued pursuant to the stock dividend program	14.7	—	—	14.7
Share option expense (Note 18)	—	2.1	—	2.1
Comprehensive income	—	—	240.7	240.7
Dividends declared	—	—	(374.0)	(374.0)
December 31, 2013	3,800.8	3.8	(408.5)	3,396.1
Shares issued pursuant to the dividend reinvestment program	**115.9**	**—**	**—**	**115.9**
Shares issued pursuant to the stock dividend program	**35.1**	**—**	**—**	**35.1**
Cancellation of shares and return of accrued dividends	**(0.7)**	**1.9**	**—**	**1.2**
Share option expense (Note 18)	**—**	**2.9**	**—**	**2.9**
Comprehensive income	**—**	**—**	**380.8**	**380.8**
Dividends declared	**—**	**—**	**(380.2)**	**(380.2)**
December 31, 2014	**3,951.1**	**8.6**	**(407.9)**	**3,551.8**

See accompanying notes to the consolidated financial statements.

ARC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Cdn$ millions)	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Net income and comprehensive income	**380.8**	240.7
Add items not involving cash:		
Unrealized gain on risk management contracts	**(205.3)**	(30.6)
Accretion of asset retirement obligations	**14.9**	12.5
Depletion, depreciation, amortization and impairment	**758.5**	551.9
Intangible exploration and evaluation expenses	**39.4**	1.3
Unrealized loss on foreign exchange	**73.8**	48.9
Loss (gain) on disposal of petroleum and natural gas properties	**1.8**	(38.9)
Deferred tax expense	**59.1**	77.9
Other (Note 21)	**1.0**	(1.9)
Net change in other liabilities (Note 21)	**(20.4)**	(16.6)
Change in non-cash working capital (Note 21)	**49.4**	(43.5)
	1,153.0	801.7
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance (repayment) of long-term debt under revolving credit facilities, net	**(22.1)**	105.9
Issue of senior notes	**166.6**	—
Repayment of senior notes	**(43.9)**	(40.9)
Issue of common shares	**—**	0.5
Cash dividends paid	**(228.6)**	(243.4)
	(128.0)	(177.9)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas properties (Note 10)	**(71.7)**	(36.4)
Disposal of petroleum and natural gas properties	**37.5**	89.8
Property, plant and equipment development expenditures (Note 10)	**(958.2)**	(859.2)
Intangible exploration and evaluation asset expenditures (Note 9)	**(49.4)**	(15.0)
Net reclamation fund contributions	**(2.6)**	(2.8)
Change in non-cash working capital (Note 21)	**26.5**	5.2
	(1,017.9)	(818.4)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7.1**	(194.6)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**—**	194.6
CASH AND CASH EQUIVALENTS, END OF PERIOD	**7.1**	—
The following are included in cash flow from operating activities:		
Income taxes paid in cash	**30.4**	43.6
Interest paid in cash	**46.3**	42.5

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

1. STRUCTURE OF THE BUSINESS

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

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

2. BASIS OF PREPARATION

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

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

The financial statements include the accounts of ARC and its wholly owned subsidiaries, ARC Resources General Partnership (the "partnership") and 1504793 Alberta Ltd. All inter-entity transactions have been eliminated.

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

These financial statements were authorized for issue by the Board of Directors on February 11, 2015.

3. SUMMARY OF ACCOUNTING POLICIES

Revenue Recognition
Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids ("NGLs") owned by ARC is recognized when title is transferred from ARC to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, condensate and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- ARC has transferred the significant risks and rewards of ownership of the goods to the buyer;
- ARC retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to ARC; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Joint Arrangements
ARC conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only ARC's proportionate interest in such activities. Joint control exists for contractual arrangements governing ARC's assets whereby ARC has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties

that collectively control the arrangement and share the associated risks. ARC does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

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 and independent directors 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. Compensation expense is 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 of the associated short-term and long-term liabilities is dependent on the expected payout dates.

Share Option Plan

ARC has established a share option plan for certain employees. 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.

A portion of total compensation costs associated with both the RSU & PSU Plan and the Share Option Plan is charged to property, plant and equipment ("PP&E") to reflect those costs that are directly attributable to capital projects. A portion is also 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.

Cash Equivalents

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

Reclamation Fund

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

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 (“E&E”) Assets

Intangible E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the existence of economically recoverable reserves and obtaining the appropriate internal and external approvals. 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. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. Net revenues from test production associated with assets classified as E&E is recognized as earned. Assets classified as E&E are not amortized.

If a project classified as E&E is determined to be technically feasible and commercially viable, the relevant cost is transferred from E&E to development and production assets which are classified as PP&E on the consolidated balance sheets (the "balance sheets"). Assets are assessed for impairment prior to any such transfer. If an E&E project is determined to be unsuccessful, all associated costs are charged to the consolidated statements of income (the "statements of income") at that time.

Property, Plant and Equipment ("PP&E")
Items of PP&E, which include oil and gas development and production assets and administrative assets, are measured at cost less accumulated depletion, depreciation and amortization 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 statements of income.

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

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 ARC 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 estimated useful lives of the related assets, which range from three to fourteen years.

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

CGUs are reviewed at each reporting date for indicators of potential impairment. 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 statements of income as an impairment charge.

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 Assets, Administrative Assets and Goodwill
E&E assets, 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 be included as 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. Impairment of goodwill and administrative assets is recognized in depletion, depreciation, amortization and impairment and impairment of E&E assets is recognized in intangible E&E expenses. Any impairment loss of goodwill is not reversed.

If E&E assets, 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 cost to sell, with impairments recognized in the statements of income in the period measured. Non-current assets held for sale are classified and presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

Government Grants
Government grants are recognized when there is reasonable assurance that ARC will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled and then amortized into earnings on a systematic basis over the useful life of the asset. When a grant relates to an expense item, it is recognized in the statements of income in the period in which the costs are incurred. When a grant relates to an asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through reduced depletion, depreciation and amortization charges.

Asset Retirement Obligations ("ARO")
ARC recognizes an ARO liability 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 change in fair value of the estimated ARO is recorded as a 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 and probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in 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.

Income 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 statements 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. Claims made for scientific research and experimental development tax credits are offset against income tax expense.

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

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

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

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

Fair Value Measurement
ARC measures cash and cash equivalents, short-term investment, risk management contracts, and reclamation fund assets at fair value at each reporting date. Fair value less cost to sell is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment. In addition, the fair value of long-term debt is disclosed in Note 12.

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

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

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

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

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

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

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

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

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

ARC's functional and presentation currency is Canadian dollars.

4. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments impact ARC's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on ARC's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on ARC's financial statements.

Future Accounting Policy Changes
In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by ARC on January 1, 2017 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by ARC on January 1, 2018 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

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

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 judgment. 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.

For the year ended December 31, 2014, ARC performed an impairment test prior to the transfer of a project in Southeast Saskatchewan from E&E assets to PP&E on the balance sheets. At December 31, 2014, ARC evaluated its CGUs for indicators of any potential impairment or related recovery. In making these evaluations, ARC used 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

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

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

As a result of declining forward commodity prices for natural gas and crude oil, impairment tests were carried out at December 31, 2014 on each of ARC's CGUs. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted cost of capital ranging from nine to 9.5 per cent depending on the resource composition of the assets in the CGU 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)
2015	64.71	62.50	3.31	0.85
2016	80.00	75.00	3.77	0.88
2017	85.71	80.00	4.02	0.88
2018	91.43	85.00	4.27	0.88
2019	97.14	90.00	4.53	0.88
2020	102.86	95.00	4.78	0.88
2021	106.18	98.54	5.03	0.88
2022	108.31	100.51	5.28	0.88
2023	110.47	102.52	5.53	0.88
2024	112.67	104.57	5.71	0.88
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	0.88

(1) Source: GLJ Petroleum Consultants price forecast, effective December 31, 2014.

For the year ended December 31, 2014, ARC recorded an impairment of $28.2 million on a Southeast Saskatchewan E&E project prior to its transfer to PP&E upon determination that the carrying amount of the project assets was unlikely to be recovered by successful development or sale. The recoverable amount of $9 million as at the date of transfer on September 30, 2014 was determined using an after-tax discount rate of 10 per cent. The impairment charge was recorded as part of intangible E&E expenses in the statements of income.

For the year ended December 31, 2014, ARC recorded an impairment of $103 million on its Northern Alberta CGU, which was recognized in depletion, depreciation, amortization and impairment in the statements of income. The recoverable amount of $991 million was determined using an after-tax discount rate of nine per cent.

The fair value less cost to sell values used to determine the recoverable amounts of the impaired E&E and PP&E assets are classified as Level 2 fair value measurements. Refer to Note 3 for information on fair value hierarchy classifications.

The carrying value of goodwill at December 31, 2014 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.

Oil and Gas Activities
The Company applies judgment when classifying the nature of oil and gas activities as E&E or PP&E, and when determining whether capitalization of the initial costs of these activities is appropriate. The Company uses historical drilling results, project economics, resource quantities, production technology expectations, production costs and future development costs to make judgments about future events and circumstances. See (a) above for discussion of estimates and judgments involved in reserve estimation.

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

Fair Value Measurement
The estimated fair value of financial instruments 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 PSU Plan is dependent on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier that is estimated by Management. Large fluctuations in compensation expense may occur due to changes in the underlying share price or revised management estimates of relevant performance factors.

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

Income Taxes

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

6. CASH AND CASH EQUIVALENTS

ARC's cash balance was $7.1 million at December 31, 2014 and was held in investment grade assets. The cash balance was nil at December 31, 2013.

7. FINANCIAL ASSETS AND CREDIT RISK

Credit risk is the risk of financial loss to ARC if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. ARC is exposed to credit risk with respect to its accounts receivable, reclamation fund assets, and risk management contracts. Most of ARC's accounts receivable relate to crude oil and natural gas sales and are subject to typical industry credit risks. Refer to Note 14 which discusses ARC's capital management objectives and policies. ARC manages its credit risk as follows:

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

The majority of the credit exposure on accounts receivable at December 31, 2014 pertains to accrued revenue for December 2014 production volumes. ARC transacts with a number of crude oil and natural gas marketing companies and commodity end users ("commodity purchasers"). Commodity purchasers and marketing companies typically remit amounts to ARC by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2014, no one counterparty accounted for more than 10 per cent of total revenue.

ARC's allowance for doubtful accounts was $0.6 million as at December 31, 2014 (nil as at December 31, 2013). During the year ended December 31, 2014, ARC recorded a $0.6 million provision for non-collectible accounts receivable (nil for the year ended December 31, 2013).

When determining whether amounts that are past due are collectible, Management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. ARC considers all amounts greater than 90 days to be past due. At December 31, 2014, $2.6 million of accounts receivable are past due, all of which are considered to be collectible ($5 million at December 31, 2013).

ARC's accounts receivable was aged as follows at December 31, 2014:

Accounts Receivable Aging	December 31, 2014
Current (less than 30 days)	159.8
31 - 60 days	1.8
61 - 90 days	0.8
Past due (more than 90 days)	2.6
Balance, December 31, 2014	**165.0**

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

8. RECLAMATION FUND

In 2005, ARC established a restricted reclamation fund to finance obligations specifically associated with its Redwater property. Minimum contributions to this fund will be approximately $64.2 million in total over the next 41 years. Under the terms of ARC's investment policy, cash in the reclamation fund can only be invested in Canadian or US Government securities, investment grade corporate bonds, or investment-grade short-term money market securities.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Balance, beginning of period	32.6	29.8
Contributions	**3.7**	3.9
Reimbursed expenditures (1)	**(1.8)**	(1.5)
Interest earned on funds	**0.7**	0.4
Balance, end of period	**35.2**	32.6

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

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

Carrying amount	
Balance, January 1, 2013	238.1
Additions	15.0
Acquisitions	13.6
Intangible exploration and evaluation expenses	(1.3)
Balance, December 31, 2013	265.4
Additions	**49.4**
Transfers to property, plant and equipment	**(9.0)**
Intangible exploration and evaluation expenses	**(39.4)**
Balance, December 31, 2014	**266.4**

ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. For the year ended December 31, 2014, these operating results have been recognized in the statements of income and comprised sales of crude oil, natural gas, condensate and natural gas liquids of $19.3 million, royalties of $1 million, operating expenses of $6.9 million, and transportation expenses of $1.6 million. All cash flows associated with E&E assets are reflected in cash flow from operating activities.

10. PROPERTY, PLANT AND EQUIPMENT

Cost	Development and Production Assets	Administrative Assets	Total
Balance, January 1, 2013	6,129.3	50.3	6,179.6
Additions	862.8	4.6	867.4
Acquisitions	22.8	—	22.8
Change in asset retirement cost	(40.6)	—	(40.6)
Assets reclassified as held for sale	(115.8)	—	(115.8)
Balance, December 31, 2013	6,858.5	54.9	6,913.4
Additions	**951.9**	**6.5**	**958.4**
Acquisitions	**71.7**	**—**	**71.7**
Transfers from exploration and evaluation	**9.0**	**—**	**9.0**
Change in asset retirement cost	**182.8**	**—**	**182.8**
Dispositions	**(140.9)**	**—**	**(140.9)**
Assets reclassified as held for sale	**(15.9)**	**—**	**(15.9)**
Balance, December 31, 2014	**7,917.1**	**61.4**	**7,978.5**
Accumulated depletion, depreciation, amortization and impairment			
Balance, January 1, 2013	(1,459.9)	(15.3)	(1,475.2)
Depletion, depreciation and amortization	(545.4)	(6.5)	(551.9)
Accumulated depletion reclassified as held for sale	42.2	—	42.2
Balance, December 31, 2013	(1,963.1)	(21.8)	(1,984.9)
Depletion, depreciation and amortization	**(649.2)**	**(6.3)**	**(655.5)**
Impairment (Note 5)	**(103.0)**	**—**	**(103.0)**
Accumulated depletion and impairment associated with dispositions	**74.9**	**—**	**74.9**
Accumulated depletion and impairment reclassified as held for sale	**10.1**	**—**	**10.1**
Balance, December 31, 2014	**(2,630.3)**	**(28.1)**	**(2,658.4)**
Carrying amounts			
Balance, December 31, 2013	4,895.4	33.1	4,928.5
Balance, December 31, 2014	**5,286.8**	**33.3**	**5,320.1**

For the year ended December 31, 2014, $39.9 million of direct and incremental general and administrative expenses were capitalized to PP&E ($38 million for the year ended December 31, 2013). During the year ended December 31, 2014, ARC completed minor acquisitions of non-producing properties for consideration of $29.8 million.

Assets held for sale	
Balance, January 1, 2013	0.3
Additions	73.6
Disposals	(73.9)
Balance, December 31, 2013	—
Additions	**66.0**
Disposals	**(60.2)**
Balance, December 31, 2014	**5.8**

In the year ended December 31, 2014, ARC entered into an agreement to dispose of certain non-core shallow gas assets located in southwestern Saskatchewan for proceeds of $32.7 million. The liabilities associated with the assets held for sale were asset retirement obligations with a book value of $28.5 million. The transaction closed on April 15, 2014.

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 at a reasonable cost through strategies such as continuously monitoring forecast and actual cash flows from operating, financing and investing activities, available credit and working capital facilities under existing banking arrangements, and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle ARC's financial liabilities. Refer to Note 12 for further details on available amounts under existing banking arrangements and Note 14 for further details on ARC's capital management objectives and policies.

The following table details the contractual maturities of ARC's financial liabilities as at December 31, 2014:

	Carrying Amount	**1 Year**	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**
Accounts payable and accrued liabilities (1)	339.1	339.1	—	—	—
Dividends payable	32.0	32.0	—	—	—
Risk management contracts (2)	2.0	1.0	1.0	—	—
Long-term debt	1,074.8	49.5	94.0	220.7	710.6
Long-term incentive compensation liability	29.1	—	29.1	—	—
Total financial liabilities	**1,477.0**	**421.6**	**124.1**	**220.7**	**710.6**

(1) Includes the portion of the cash obligations associated with the RSU & PSU Plans that will be settled within one year.
(2) Risk management contracts are derivatives. All other financial liabilities contained in this table are non-derivative liabilities.

The carrying values of ARC's accounts payable and accrued liabilities, dividends payable, and long-term incentive compensation liability approximate their fair values.

12. LONG-TERM DEBT

	December 31, 2014	December 31, 2013
Syndicated credit facilities		
Cdn$ denominated	**83.8**	99.8
Working capital facility	**—**	6.1
Senior notes		
Master Shelf Agreement		
5.42% US$ note	**32.6**	39.9
4.98% US$ note	**58.0**	53.2
3.72% US$ note	**174.0**	—
2004 Note Issuance		
4.62% US$ note	**—**	6.8
5.10% US$ note	**11.1**	15.3
2009 note issuance		
7.19% US$ note	**31.3**	43.1
8.21% US$ note	**40.6**	37.2
6.50% Cdn$ note	**11.6**	17.4
2010 note issuance		
5.36% US$ note	**174.0**	159.5
2012 note issuance		
3.31% US$ note	**69.7**	63.8
3.81% US$ note	**348.1**	319.2
4.49% Cdn$ note	**40.0**	40.0
Total long-term debt outstanding	**1,074.8**	901.3
Long-term debt due within one year	**49.5**	42.1
Long-term debt due beyond one year	**1,025.3**	859.2

Credit Facility

ARC has a $1 billion, annually extendable, financial covenant-based syndicated credit facility ("the facility"). The current maturity date of the facility is November 6, 2018. ARC also has in place a $40 million demand working capital facility and letter of credit facilities from two lenders totaling $40 million. Both the working capital facility and the letter of credit facilities are subject to the same covenants as the syndicated credit facility.

Borrowings under the facility bear interest at Canadian bank prime (three per cent at both December 31, 2014 and 2013) or US base rate, or, at ARC's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

The weighted average interest rate under the credit facility was three per cent for the year ended December 31, 2014 (two per cent for the year ended December 31, 2013).

Senior Notes Issued Under a Master Shelf Agreement

These senior notes were issued in three 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$28.1 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
September 25, 2014	US$150 million	3.72%	September 25, 2026	Five equal installments beginning September 25, 2022

Senior Notes Not Subject to the Master Shelf Agreement

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

Issue Date	Remaining Principal	Coupon Rate	Maturity Date	Principal Payment Terms
April 27, 2004	US$9.6 million	5.10%	April 27, 2016	Five equal installments beginning April 27, 2012
April 14, 2009	US$27 million	7.19%	April 14, 2016	Five equal installments beginning April 14, 2012
April 14, 2009	US$35 million	8.21%	April 14, 2021	Five equal installments beginning April 14, 2017
April 14, 2009	Cdn$11.6 million	6.50%	April 14, 2016	Five equal installments beginning April 14, 2012
May 27, 2010	US$150 million	5.36%	May 27, 2022	Five equal installments beginning May 27, 2018
August 23, 2012	US$60 million	3.31%	August 23, 2021	Five equal installments beginning August 23, 2017
August 23, 2012	US$300 million	3.81%	August 23, 2024	Five equal installments beginning August 23, 2020
August 23, 2012	Cdn$40 million	4.49%	August 23, 2024	Five equal installments beginning August 23, 2020

Credit Capacity

The following table summarizes ARC's available credit capacity and the current amounts drawn as at December 31, 2014:

	Credit Capacity	Drawn	Remaining
Syndicated credit facility	1,000.0	83.8	916.2
Working capital facility	40.0	—	40.0
Senior Notes subject to a Master Shelf Agreement (1)	406.0	264.6	141.4
Senior Notes not subject to a Master Shelf Agreement	726.4	726.4	—
Total	2,172.4	1,074.8	1,097.6

(1) Total credit capacity is US$350 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 and a quarter times trailing twelve month net income before non-cash items, income taxes and interest expense;
- long-term debt, letters of credit, and subordinated debt not to exceed four times trailing twelve month net income before non-cash items, income taxes and interest expense; and
- long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit, and subordinated debt.

In the event that ARC enters into a material acquisition whereby the purchase price exceeds 10 per cent of the 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, 2014, ARC had $15.5 million in letters of credit ($14.9 million at December 31, 2013), no subordinated debt, and was in compliance with all covenants.

On September 25, 2014, ARC issued US$150 million of senior unsecured notes under its Master Shelf Agreement by way of a private placement. The notes have a 12 year amortization term with a 10 year average life and a fixed-rate coupon of 3.72 per cent. The notes are unsecured and rank equally with ARC's bank credit facility and other outstanding senior notes. Concurrently, ARC increased the Master Shelf Agreement from a maximum of US$225 million to US$350 million and extended the term for an additional three years commencing September 25, 2014.

As at December 31, 2014, the fair value of all senior notes is $974.4 million ($785.9 million as at December 31, 2013), compared to a carrying value of $991 million ($795.4 million as at December 31, 2013).

13. ASSET RETIREMENT OBLIGATIONS

The total future ARO liability was estimated by Management based on ARC's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. ARC has estimated the net present value of its total ARO to be $616.1 million as at December 31, 2014 ($475.4 million at December 31, 2013) based on a total future undiscounted liability of $1.6 billion ($1.7 billion at December 31, 2013). At December 31, 2014, Management estimates that these payments are expected to be made over the next 60 years with the majority of payments being made in years 2063 to 2074. The Bank of Canada's long-term risk-free bond rate of 2.3 per cent (3.2 per cent at December 31, 2013) and an inflation rate of two per cent (two per cent at December 31, 2013) were used to calculate the present value of the ARO liability at December 31, 2014.

The following table reconciles ARC's provision for ARO:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Balance, beginning of period	475.4	532.9
Increase in liabilities relating to development activities	**12.6**	12.8
Increase (decrease) in liabilities relating to change in estimate and discount rate	**174.2**	(53.4)
Settlement of reclamation liabilities	**(23.0)**	(18.5)
Accretion	**14.9**	12.5
Dispositions	**(32.5)**	(10.9)
Reclassified as liabilities associated with assets held for sale	**(5.5)**	—
Balance, end of period	**616.1**	475.4
Expected to be incurred within one year	**13.0**	25.1
Expected to be incurred beyond one year	**603.1**	450.3

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.

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 ARO contained within liabilities associated with assets held for sale, as well as the current portion of long-term debt and current portion of ARO.

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 market capitalization. As at December 31, 2014 ARC's net debt to funds from operations ratio is 1.1 and its net debt to total market capitalization ratio is 13.5 per cent.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash flow from operating activities	**1,153.0**	801.7
Net change in other liabilities (Note 21)	**20.4**	16.6
Change in non-cash working capital (Note 21)	**(49.4)**	43.5
Funds from operations	**1,124.0**	861.8

	December 31, 2014	December 31, 2013
Long-term debt (1)	**1,074.8**	901.3
Accounts payable and accrued liabilities	**339.1**	274.5
Dividends payable	**32.0**	31.4
Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investment	**(190.0)**	(195.7)
Net debt obligations	**1,255.9**	1,011.5
Shares outstanding (millions)	**319.4**	314.1
Share price ($) (2)	**25.16**	29.57
Market capitalization	**8,036.1**	9,287.9
Net debt obligations	**1,255.9**	1,011.5
Total capitalization	**9,292.0**	10,299.4
Net debt as a percentage of total capitalization (%)	**13.5**	9.8
Net debt to funds from operations (ratio)	**1.1**	1.2

(1) Includes current portion of long-term debt at December 31, 2014 and 2013 of $49.5 million and $42.1 million, respectively.
(2) TSX closing price as at December 31, 2014 and 2013, 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.

15. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Fair Value Hierarchy

All of ARC's financial instruments carried at fair value are transacted in active markets. ARC's cash and cash equivalents, short-term investment, and reclamation fund assets are classified as Level 1 measurements in the three-level fair value measurement hierarchy and its bank debt and risk management contracts are classified as Level 2 measurements. ARC does not have any fair value measurements classified as Level 3 and there were no transfers between levels in the hierarchy in the year ended December 31, 2014.

Short-term Investment

ARC holds an equity investment in a publicly traded petroleum and natural gas producing company that had an initial cost of $2.9 million. At December 31, 2014, the fair value of ARC's investment was $3.6 million ($3.6 million at December 31, 2013). An unrealized gain of $1.9 million was recorded for the year ended December 31, 2013, where no gains or losses were recorded for the year ended December 31, 2014.

Financial Assets and Financial Liabilities Subject to Offsetting

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at December 31, 2014 and December 31, 2013:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset in Balance Sheet	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet
As at December 31, 2014					
Risk management contracts					
Current asset	**151.0**	**(18.2)**	**132.8**	**(1.0)**	**131.8**
Long-term asset	**132.1**	**(3.1)**	**129.0**	**(1.0)**	**128.0**
Current liability	**(19.2)**	**18.2**	**(1.0)**	**—**	**(1.0)**
Long-term liability	**(4.1)**	**3.1**	**(1.0)**	**—**	**(1.0)**
Net position	**259.8**	**—**	**259.8**	**(2.0)**	**257.8**
As at December 31, 2013					
Risk management contracts					
Current asset	13.7	(9.2)	4.5	(0.1)	4.4
Long-term asset	63.3	(1.6)	61.7	(0.5)	61.2
Current liability	(22.6)	9.2	(13.4)	0.5	(12.9)
Long-term liability	(2.3)	1.6	(0.7)	0.1	(0.6)
Net position	52.1	—	52.1	—	52.1

Market Risk Management

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

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

ARC has prepared sensitivity analyses in an attempt to demonstrate the hypothetical effect of changes in these market risk factors on ARC's net income. For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2014. The results of the sensitivity analyses should not be considered to be predictive of future performance.

Commodity Price Risk

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

The guidelines for ARC's risk management program currently restrict the amount of risk management contracts to a maximum of 55 per cent of total forecast production whereby a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent of forecast production for that commodity over the next two years, and with a maximum of 25 percent of forecast natural gas production in risk management contracts beyond two years and up to five years. ARC's risk management program guidelines allow for further risk management contracts on anticipated volumes associated with new production arising from specific capital projects and acquisitions or to further protect cash flows for a specific period with approval of the Board.

ARC manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (see Risk Management Contracts section below). The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2014. The sensitivity is based on a US$10 increase and decrease in the price of West Texas Intermediate ("WTI"), a US$0.50 increase and decrease in the price of New York Mercantile Exchange ("NYMEX") natural gas, a five per cent increase and 10 per cent decrease in the Alberta natural gas trading price ("AECO") basis relative to NYMEX, and a Cdn$20 increase and Cdn$10 decrease in the Alberta Electric System Operator ("AESO") power price.

Sensitivity of Commodity Price Risk Management Contracts						
	Increase in Commodity Price			Decrease in Commodity Price		
	Crude Oil	Natural Gas	Electricity	Crude Oil	Natural Gas	Electricity
Net income increase (decrease)	(3.8)	(104.8)	8.8	1.0	135.6	(4.0)

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

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

If interest rates applicable to variable rate debt increased or decreased by one per cent, it is estimated that ARC's net income would change by approximately $1.2 million for the year ended December 31, 2014. This assumes that the change in interest rates would be effective from the beginning of the year, while maintaining the same amount and proportion of variable interest rate debt that was outstanding as at December 31, 2014.

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

The following table demonstrates the effect of exchange rate movements on net income due to changes in the fair value of risk management contracts in place at December 31, 2014 as well as the unrealized gain or loss on revaluation of outstanding US dollar denominated debt. The sensitivity is based on a $0.04 increase and $0.04 decrease in the Cdn$/US$ foreign exchange rate.

Sensitivity of Foreign Exchange Exposure	Increase in Cdn$/US$ rate	Decrease in Cdn$/US $ rate
Risk management contracts	7.0	(8.3)
US dollar denominated debt	(28.3)	28.3
Net income increase (decrease)	(21.3)	20.0

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 year ended December 31, 2014.

Risk Management Contracts

The following is a summary of all risk management contracts in place, excluding premiums, as at December 31, 2014. Risk management contract premiums have been disclosed as commitments in Note 19.

Financial WTI Crude Oil Contracts (1)

Term		Contract	Volume bbl/d	Bought Put US$/bbl	Sold Put US$/bbl	Sold Call US$/bbl
1-Jan-15	30-Jun-15	3-Way	4,000	90.00	65.00	100.00
1-Jan-15	30-Jun-15	3-Way	2,000	90.00	65.00	102.50

(1) Settled on the monthly average price.

Financial NYMEX Natural Gas Contracts (2)

Term		Contract	Volume mmbtu/d	Bought Put US$/mmbtu	Sold Call US$/mmbtu
1-Jan-15	31-Mar-15	Collar	75,000	4.00	4.50
1-Jan-15	31-Mar-15	Collar	20,000	4.00	5.25
1-Jan-15	30-Apr-15	Collar	30,000	3.75	4.25
1-Jan-15	31-Dec-15	Collar	20,000	3.75	4.25
1-Jan-15	31-Dec-15	Collar	30,000	4.00	4.75
1-Jan-15	31-Dec-15	Collar	60,000	4.00	5.00
1-Apr-15	31-Dec-15	Collar	65,000	4.00	4.25
1-May-15	31-Dec-15	Collar	30,000	3.75	4.00
1-Apr-15	31-Dec-17	Collar	10,000	4.00	4.50
1-Jan-16	31-Dec-17	Collar	45,000	4.00	4.50
1-Jan-16	31-Dec-17	Collar	90,000	4.00	5.00
1-Jan-18	31-Dec-18	Collar	30,000	4.00	4.75
1-Jan-18	31-Dec-18	Collar	60,000	4.00	5.00
1-Jan-19	31-Dec-19	Collar	40,000	4.00	5.00

(2) NYMEX Henry Hub "Last Day" Settlement.

Financial AECO Basis Swap Contracts (3)

Term		Contract	Volume mmbtu/d	Ratio Sold Swap % AECO/NYMEX
1-Jan-15	31-Dec-15	Swap	130,000	90.5
1-Jul-15	31-Dec-15	Swap	30,000	85.2
1-Jan-16	31-Dec-16	Swap	140,000	90.3
1-Jan-17	31-Dec-17	Swap	140,000	90.2
1-Jan-18	30-Jun-18	Swap	20,000	89.9
1-Jan-18	31-Dec-18	Swap	35,000	88.5
1-Jul-18	31-Dec-18	Swap	20,000	85.4
1-Jan-19	30-Jun-19	Swap	20,000	90.8

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

Financial Electricity Heat Rate Contracts (4)

Term		Contract	Volume MWh	Heat Rate GJ/MWh
1-Jan-15	31-Dec-17	Heat Rate Swap	20	13.71

(4) ARC pays AECO Monthly (5a) x Heat Rate; ARC receives floating AESO Power Price.

Financial Electricity Contracts [5]				
Term		Contract	Volume MWh	Bought Swap Cdn$/MWh
1-Jan-15	31-Dec-16	Fixed Rate Swap	5	51.00

(5) Alberta Power Pool (monthly average 24x7).

Foreign Exchange Contracts [6]					
Term		Contract	Volume US$ millions/month	Bought Put Cdn$/US$	Sold Call Cdn$/US$
1-Jan-15	31-Dec-15	Collar	2.0	1.0400	1.0925

(6) Bank of Canada monthly average noon day rate settlement.

Foreign Exchange Swap Contracts [7]					
Term		Contract	Volume US$ millions/month	Sold Swap Cdn$/US$	Limit Price Cdn$/US$ [8]
1-Jan-15	31-Dec-15	Limit Swap	2.0	1.0525	1.1350

(7) Bank of Canada monthly average noon day rate settlement.
(8) Swap with upside participation up to the limit; above which, settlement will occur at swap price.

At December 31, 2014, the net fair value associated with ARC's risk management contracts was a net asset of $257.8 million ($52.1 million net asset at December 31, 2013). ARC recorded gains on its risk management contracts of $176.2 million for the year ended December 31, 2014 in its statements of income (gains of $46.3 million for the year ended December 31, 2013).

16. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Current:		
Current year	**87.1**	24.7
Adjustments for prior years	**(16.8)**	(8.4)
	70.3	16.3
Deferred:		
Origination and reversal of temporary differences	**53.0**	55.5
Adjustments for prior years	**7.4**	10.7
Changes in tax rates and legislation	**(1.3)**	11.7
	59.1	77.9
Total provision for income taxes	**129.4**	94.2

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, 2014	December 31, 2013
Income before tax	**510.2**	334.9
Canadian statutory rate [(1)]	**25.4%**	25.5%
Expected income tax expense at statutory rates	**129.8**	85.3
Effect on income tax of:		
Effect of change in corporate tax rate	**(1.3)**	11.7
Non-deductible portion of unrealized loss on foreign exchange	**10.0**	7.2
Change in estimated pool balances	**(9.4)**	(8.2)
Other	**0.3**	(1.8)
Total provision for income taxes	**129.4**	94.2

(1) The tax rate consists of the combined federal and provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2014 and December 31, 2013.

	December 31, 2014	December 31, 2013
Deferred tax liabilities:		
PP&E in excess of tax basis	**780.6**	731.3
Risk management contracts	**66.2**	16.8
Deferred tax assets:		
Asset retirement obligations	**(158.4)**	(121.5)
Long-term debt	**(10.8)**	(0.9)
Risk management contracts	**(0.5)**	(3.4)
Long-term incentive compensation expense	**(15.2)**	(17.4)
Other	**(2.6)**	(4.7)
Deferred taxes	**659.3**	600.2

At December 31, 2014, the petroleum and natural gas properties and facilities owned by ARC have an approximate federal tax basis of $2.5 billion ($2.3 billion in 2013) available for future use as deductions from taxable income.

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

	December 31, 2014	December 31, 2013
Canadian oil and gas property expense	**710.9**	718.2
Canadian development expense	**974.6**	862.5
Canadian exploration expense	**—**	—
Undepreciated capital cost	**834.5**	740.0
Other	**10.8**	18.8
Total federal tax pools	**2,530.8**	2,339.5
Additional Alberta tax pools	**19.9**	23.3

A deferred tax liability has not been recognized in respect of temporary differences associated with the investment in the partnership, as it is not likely that such temporary differences will reverse in the foreseeable future as ARC currently has no intention to dispose of its investment in the partnership. The taxable temporary differences associated with the investment in the partnership at December 31, 2014 are approximately $3 billion ($3 billion at December 31, 2013).

17. SHAREHOLDERS' CAPITAL

ARC is authorized to issue an unlimited number of no par value common shares and 50 million preferred shares without nominal or par value. Common shares carry one vote per share and the right to dividends. Preferred shares may be issued in series with rights and conditions to be determined by ARC's Board of Directors prior to issuance and subject to the Company's articles. There are no outstanding preferred shares as at December 31, 2014 or 2013.

(thousands of shares)	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Common shares, beginning of period	314,067	308,888
Cancelled shares	**(47)**	—
Dividend reinvestment program	**4,159**	4,611
Stock dividend program	**1,260**	568
Common shares, end of period	**319,439**	314,067

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

(thousands of shares)	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Weighted average common shares	**316,621**	311,537
Dilutive impact of share options	**587**	361
Weighted average common shares - diluted	**317,208**	311,898

Dividends declared for the years ended December 31, 2014 and 2013 were $1.20 per common share.

On January 16, 2015, the Board of Directors declared a dividend of $0.10 per common share, payable in cash or common shares under the Stock Dividend Program, to shareholders of record on January 30, 2015. The dividend payment date is February 17, 2015. Of the $32 million in dividends payable at December 31, 2014, $4.2 million is payable in common shares under the Stock Dividend Program ($2.6 million at December 31, 2013).

18. LONG-TERM INCENTIVE PLANS

RSU & PSU Plan

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

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

DSU Plan

ARC offers a DSU Plan to non-employee directors, under which each director receives a minimum of 60 per cent of their total annual remuneration in the form of 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.

The following table summarizes the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU") and Deferred Share Unit ("DSU") movement for the years ended December 31, 2014 and 2013:

(number of units, thousands)	**RSUs**	**PSUs** (1)	**DSUs**
Balance, January 1, 2013	696	1,401	134
Granted	346	577	57
Distributed	(349)	(379)	(32)
Forfeited	(55)	(107)	—
Balance, December 31, 2013	638	1,492	159
Granted	**327**	**494**	**61**
Distributed	**(299)**	**(435)**	**—**
Forfeited	**(41)**	**(38)**	**—**
Balance, December 31, 2014	**625**	**1,513**	**220**

(1) Based on underlying units before performance multiplier.

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
General and administrative expense	**22.7**	38.7
Operating expense	**3.8**	5.3
PP&E	**4.3**	6.5
Total compensation charges	**30.8**	50.5
Cash payments	**39.4**	33.7

At December 31, 2014, $30.9 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($42.6 million at December 31, 2013) and $29.1 million was included in long-term incentive compensation liability ($26.1 million at December 31, 2013). A recoverable amount of $0.5 million was included in accounts receivable at December 31, 2014 ($0.6 million at December 31, 2013).

Share Option Plan

Share options are granted to officers and certain employees of ARC which vest evenly on the fourth and fifth anniversary of their grant date and have a maximum term of seven years. The option holder has the right to exercise the options and purchase common shares 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 were $3.6 million, or $8.40 per option outstanding for the 2011 grant, $5.5 million, or $5.25 per option outstanding for the 2012 grant, $5.6 million, or $7.87 per option outstanding for the 2013 grant, and $5.8 million, or $10.21 per option outstanding for the 2014 grant. The first vesting is expected to occur on March 24, 2015. The following assumptions were used to arrive at the estimated fair value at the date of the options grants:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Grant date share price ($)	**20.20 - 32.94**	20.20 - 27.15
Exercise price ($) (1)	**17.20 - 32.34**	18.40 - 26.55
Expected annual dividends ($)	**1.20**	1.20
Expected volatility (%) (2)	**37.00 - 38.00**	37.00 - 38.00
Risk-free interest rate (%)	**1.39 - 2.61**	1.39 - 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 seven years.
(3) Expected life of the share option is calculated as the mid-point between vesting date and expiry.

ARC recorded compensation expense of $2.7 million relating to the share option plan for the year ended December 31, 2014 ($1.9 million for the year ended December 31, 2013). During the year ended December 31, 2014, $0.2 million of direct and incremental share option expenses were capitalized to PP&E ($0.2 million for the year ended December 31, 2013).

The changes in total share options outstanding and related weighted average exercise prices for the years ended December 31, 2014 and 2013 were as follows:

	Share Options (number of units, thousands)	Weighted Average Exercise Price ($)
Balance, January 1, 2013	1,420	21.06
Granted	713	27.15
Forfeited	(111)	22.13
Balance, December 31, 2013	2,022	22.12
Granted	**569**	**32.94**
Forfeited	**(86)**	**23.85**
Balance, December 31, 2014	**2,505**	**23.43**
Exercisable, December 31, 2014	**—**	**—**

19. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2014:

	Payments Due by Period				
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Debt repayments (1)	49.5	94.0	220.7	710.6	1,074.8
Interest payments (2)	43.5	78.8	66.4	88.7	277.4
Reclamation fund contributions (3)	3.4	6.4	6.0	48.4	64.2
Purchase commitments	27.0	19.4	13.6	8.2	68.2
Transportation commitments	67.2	137.7	113.6	260.7	579.2
Operating leases	15.8	29.4	27.1	58.6	130.9
Risk management contract premiums (4)	0.8	9.6	0.5	—	10.9
Total contractual obligations and commitments	**207.2**	**375.3**	**447.9**	**1,175.2**	**2,205.6**

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

In addition to the above risk management contract premiums, ARC has commitments related to its risk management program (see Note 15). As the premiums are related to the underlying risk management contracts, they have been recorded at fair market value at December 31, 2014 on the balance sheet as part of risk management contracts.

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

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

20. RELATED PARTIES

Interest in Partnership

ARC owns a 99.99% interest in the ARC Resources General 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. Short-term benefits are comprised of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the long-term incentive plans and 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 is as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Short-term benefits	**8.0**	9.8
Share-based payments	**15.6**	26.0
Total key management personnel compensation	**23.6**	35.8

21. SUPPLEMENTAL DISCLOSURES

Presentation in the Statements of Income
ARC's statements of income are prepared primarily by nature of item, with the exception of employee compensation expenses which are included in both the operating and general and administrative expense line items.

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
Operating	**35.3**	33.0
General and administrative	**84.4**	95.6
Total employee compensation expenses	**119.7**	128.6

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

Change in Non-Cash Working Capital	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Accounts receivable	**12.5**	(12.2)
Accounts payable and accrued liabilities	**62.1**	(23.6)
Prepaid expenses	**1.3**	(2.5)
Total	**75.9**	(38.3)
Relating to:		
Operating activities	**49.4**	(43.5)
Investing activities	**26.5**	5.2
Total change in non-cash working capital	**75.9**	(38.3)

Other Non-Cash Items	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Non-cash lease inducement	**(1.7)**	(1.9)
Gain on short-term investment	**—**	(1.9)
Share option expense	**2.7**	1.9
Total other non-cash items	**1.0**	(1.9)

Net Change in Other Liabilities	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Long-term incentive compensation liability	**3.0**	1.6
Risk management contracts	**(0.4)**	0.3
Asset retirement obligations	**(23.0)**	(18.5)
Total net change in other liabilities	**(20.4)**	(16.6)

22. SUBSEQUENT EVENT

On January 29, 2015, ARC issued 17.9 million common shares at a price of $22.55 per share for aggregate gross proceeds of approximately $402 million (net proceeds of approximately $385 million) on a bought deal basis.

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

This Annual Report describes certain information in our news releases dated February 11, 2015 titled: "ARC Resources Ltd. Reports Record Fourth Quarter Production and Strong Financial Results" and ARC Resources Ltd. Announces 210 Per Cent of Produced Reserves Replacement in 2014" and readers should refer to those news releases, which news releases 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, elsewhere in the Annual Report and in the documents incorporated by reference herein. The discussion in this Annual Report in respect of reserves and resources is subject to a number of cautionary statements, assumptions and risks as set forth below in the Corporation's Annual Information Form for the year ended December 31, 2014, which is available on our SEDAR profile at *www.SEDAR.com*. Readers should also refer to the definitions of oil and gas reserves and resources found under "Glossary and Disclosure" 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, 2014 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, 2014, inflation and exchange rates used in the evaluation are based on GLJ's January 1, 2015 pricing. Reserves included herein are stated on a company gross basis (working interest before deduction of royalties without including any royalty interests) unless noted otherwise. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

The resources data set forth in this Annual Report is based upon an Independent Resources Evaluation by GLJ of ARC's lands in the Montney in northeastern British Columbia. The Independent Resources Evaluation was effective December 31, 2014 and is based on GLJ's forecast pricing as at January 1, 2015.

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, 2014, 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 ARC's reserves, including the quality of the applicable 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 lands; the potential for variation in the quality of the applicable formation, changes in the demand for or supply of ARC's products; unanticipated operating results or production declines; unanticipated results from ARC's exploration and development activities; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of ARC or by third party operators of ARC's properties, increased debt levels or debt service requirements; inaccurate estimation of ARC's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in ARC's Annual Information Form and in this Annual Report).

The forward-looking information and statements contained in this Annual Report speak only as of the date of this Annual Report, and none of ARC or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

GLOSSARY AND DISCLOSURE

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.

DEFINITIONS OF OIL AND GAS RESOURCES AND RESERVES

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

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

Resources encompasses all petroleum quantities that originally existed on or within the earth's crust in naturally occurring accumulations, including Discovered and Undiscovered (recoverable and unrecoverable) plus quantities already produced. "Total resources" is equivalent to "Total Petroleum Initially-In-Place". Resources are classified in the following categories:

> **Total Petroleum Initially-In-Place ("TPIIP")** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
>
> **Contingent Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development but which are not currently considered to be commercially recoverable due to one or more contingencies.
>
> **Economic Contingent Resources ("ECR")** are those contingent resources which are currently economically recoverable.

CORPORATE & SHAREHOLDER INFORMATION

DIRECTORS

Mac H. Van Wielingen (3) (4) (6)
Chairman

Myron M. Stadnyk
President and Chief Executive Officer

John P. Dielwart (5) (6)

Fred J. Dyment (2) (4) (6)

Timothy J. Hearn (3) (4) (5)

James C. Houck (1) (2) (6)

Hal Kvisle (3) (4)

Kathleen O'Neill (1) (5) (6)

Herb Pinder (2) (3) (4)

William G. Sembo (1) (2)

(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

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

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

David P. Carey
Senior Vice-President, Capital Markets

Terry Gill
Senior Vice-President, Corporate Services

Kristen (Kris) Bibby
Vice-President, Finance

Jay Billesberger
Vice-President, Information Technology

Sean Calder
Vice-President, Production

Lara Conrad
Vice-President, Engineering

Neil Groeneveld
Vice-President, Geosciences and Exploration

Wayne Lentz
Vice-President, Strategy and Business Development

Karen Nielsen
Vice-President, Operations

Grant Zawalsky
Corporate Secretary

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Calgary, Alberta

ENGINEERING CONSULTANTS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Burnet Duckworth & Palmer LLP
Calgary, Alberta

CARBON DISCLOSURE PROJECT

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

CAPP RESPONSIBLE CANADIAN ENERGY™

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.

CORPORATE CALENDAR 2015

April 29, 2015
Q1 2015 Results

April 30, 2015
2015 Annual General Meeting

STOCK EXCHANGE LISTING

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

INVESTOR INFORMATION

Visit our website at
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TOLL FREE 1.888.272.4900

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