

ANNUAL  
REPORT 2016

# FOCUSED

ARC RESOURCES LTD



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# CORPORATE PROFILE

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

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

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

# 2016

## ACCOMPLISHMENTS



Achieved excellent safety performance with

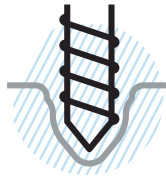
**zero**  
**lost-time**

incidents for employees and contractors

Replaced

**260%**

of produced reserves through development activities



Decade low operating costs of

**\$6.65**

per boe



Profitably grew production to

**118,670**

boe per day



Approximately

**\$5.9**  
**billion**

paid to investors in dividends since inception



Consolidated asset base with

**strategic**  
**A&D** activities

Delivered value to shareholders through an annual total return of

**42%**



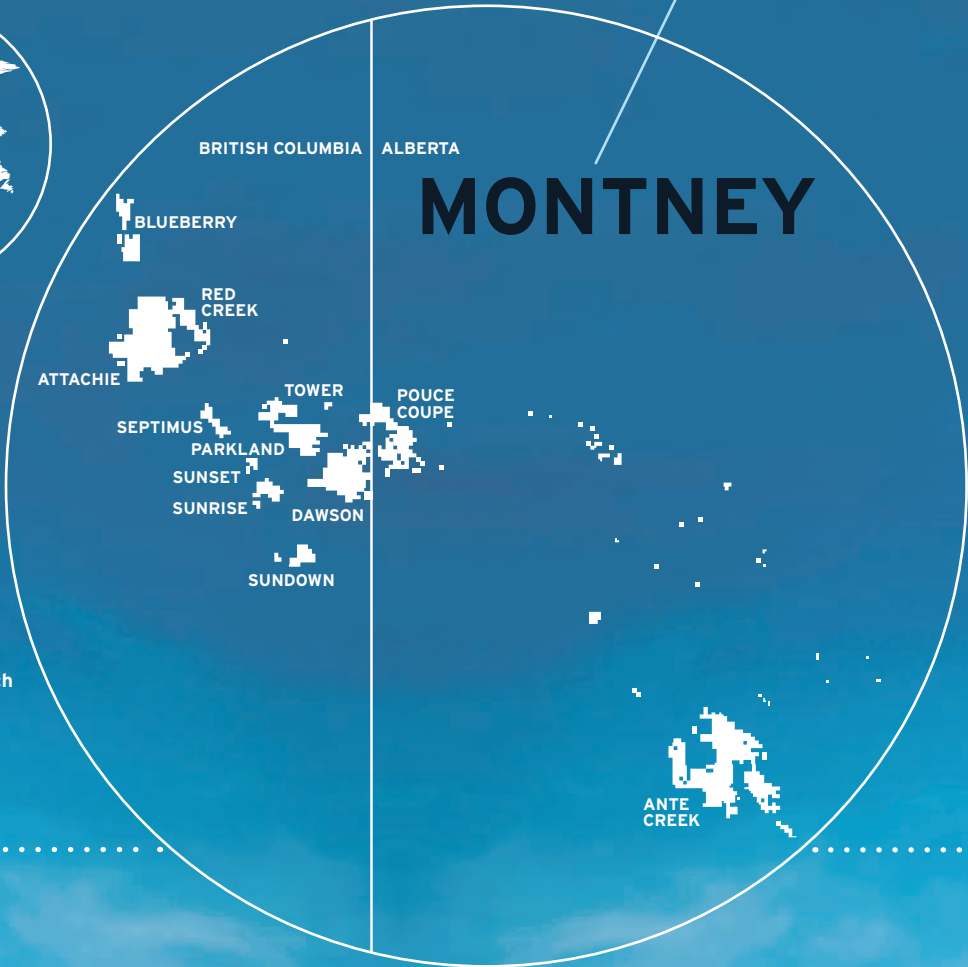
Strengthened the balance sheet, ending the year with net debt to funds from operations of

**0.6x**



# OUR OPERATIONS

# FOCUSED ASSET BASE



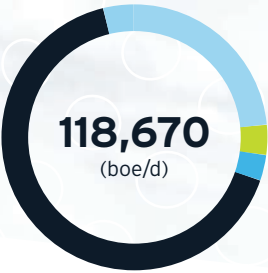
As part of our continuous portfolio management program, ARC further consolidated its asset base in 2016 with a primary focus on the Montney and Pembina Cardium. Moving to a more focused asset base enables execution of larger-scale projects, best supports the application of learnings across properties and assets teams, and facilitates improved capital efficiencies and operating cost structures.



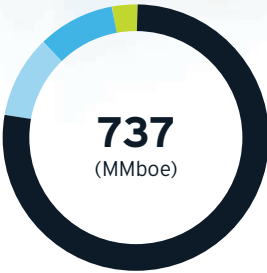
The Montney provides competitive economics and long-term, large scale opportunities. ARC has been active in the Montney since 2000, developing technical expertise and growing its conviction in the play each year as the Montney continues to exceed expectations.

## PEMBINA

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



2016 Production by Type



2016 Reserves by Area

### Montney Overview

2016 average daily production	94,430 boe per day <sup>(1)</sup>	Proved plus probable reserves	636 MMboe
Production Profile	80% natural gas, 20% oil and liquids	Land Position	1,170 net Montney Sections
2017 Budget	\$620 million		

### Cardium Overview

2016 average daily production	10,285 boe per day	Proved plus probable reserves	69 MMboe
Production Profile	20% natural gas, 80% oil and liquids	Land Position	217 net Cardium Sections
2017 Budget	\$90 million		

1. Includes Montney and non-Montney production in Ante Creek.

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

## Twelve Months Ended December 31

Cdn\$ millions, except per share and boe amounts

### Financial

	2016	2015	2014
Net income (loss)	201.3	(342.7)	380.8
Per share <sup>(1)</sup>	0.57	(1.01)	1.20
Funds from operations <sup>(2)</sup>	633.3	773.4	1,124.0
Per share <sup>(1)</sup>	1.80	2.27	3.54
Dividends	228.2	410.5	380.2
Per share <sup>(1)</sup>	0.65	1.20	1.20
Capital expenditures, before land and net property acquisitions (dispositions)	453.4	541.6	945.5
Total capital expenditures, including land and net property acquisitions (dispositions)	(76.4)	473.9	1,042.0
Net debt outstanding <sup>(3)</sup>	356.5	985.1	1,255.9
Shares outstanding, weighted average diluted	351.3	340.5	317.2
Shares outstanding, end of period	353.3	347.1	319.4

### Operating

#### Production

Crude oil (bbl/d)	31,510	32,762	36,525
Condensate (bbl/d)	3,626	3,430	3,667
Natural gas (MMcf/d)	475.6	444.9	406.1
NGLs (bbl/d)	4,274	3,819	4,518
Total (boe/d) <sup>(4)</sup>	118,671	114,167	112,387
Average realized prices, prior to hedging			
Crude oil (\$/bbl)	50.34	53.53	90.64
Condensate (\$/bbl)	50.98	53.84	93.81
Natural gas (\$/Mcf)	2.23	2.88	4.76
NGLs (\$/bbl)	13.85	10.70	39.45
Oil equivalent (\$/boe) <sup>(4)</sup>	24.35	28.57	51.31
Operating netback (\$/boe) <sup>(4) (5)</sup>			
Commodity and other sales	24.49	28.65	51.38
Royalties	(2.05)	(2.48)	(7.26)
Transportation expenses	(2.20)	(2.33)	(2.23)
Operating expenses	(6.65)	(7.15)	(8.88)
Netback before hedging	13.59	16.69	33.01
Realized hedging gain (loss)	4.98	4.46	(0.65)
Netback after hedging	18.57	21.15	32.36

### Reserves (company gross) <sup>(6)</sup>

Proved plus probable reserves			
Crude oil and NGLs (Mbbbl)	195,500	199,826	192,489
Natural Gas (Bcf)	3,247	2,922	2,882
Total (Mboe)	736,733	686,851	672,748

### Trading Statistics <sup>(7)</sup>

High price	24.94	25.87	33.68
Low price	14.43	15.39	22.70
Close price	23.11	16.70	25.16
Average daily volume (thousands)	1,760	1,832	1,344

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

(2) Refer to the "Capital Management" note in ARC's financial statements and to the sections entitled, "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.

(3) Refer to the "Capital Management" note in ARC's financial statements and to the section entitled, "Capitalization, Financial Resources and Liquidity" contained within ARC's MD&A.

(4) ARC has adopted the standard 6 Mcf : 1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf : 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

(5) Operating netback does not have a standardized meaning under IFRS. See "Non-GAAP Measures" contained within ARC's MD&A.

(6) Company gross reserves are gross interest prior to deduction of royalty burdens and without including any royalty interest.

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

# BY THE NUMBERS



In the last 3 years, ARC has increased production by

**6%**

to an average of

**118,670**

boe per day



2016 Proved plus probable Reserve Life Index of

**16 years**



Reduced net debt by

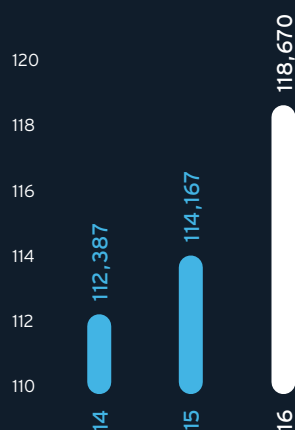
**\$600 million** in 2016



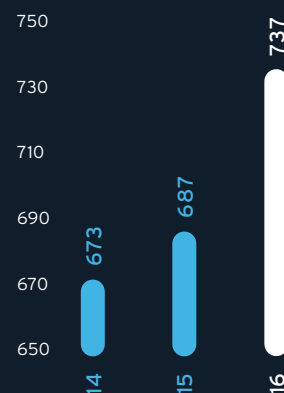
Realized hedging gains represented approximately

**25%** of total operating netbacks after hedging in 2015 and 2016

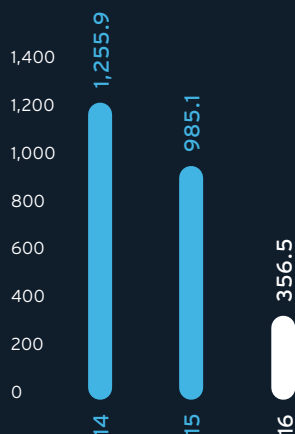
Production  
(boe/d/000's)



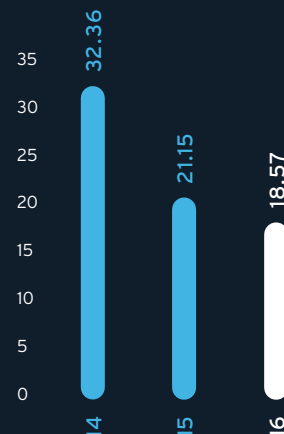
Reserves Growth  
Proved plus probable  
(MMboe)



Net Debt  
(\$ millions)



Operating Netback  
after Hedging  
(\$/boe)



# MESSAGE TO SHAREHOLDERS

“

In 2016, we achieved solid financial and operational performance, grew production and reserves, strengthened our balance sheet to be amongst the strongest in the industry, and continued to execute and plan long-term strategic projects that set ARC up for continued success.

”



*Myron M. Stadnyk*

MYRON M. STADNYK  
President & Chief Executive Officer



# 2016

## YEAR IN REVIEW

The past year has been a truly transformational year at ARC. We celebrated our 20th anniversary and entered our third decade as an organization. We are in a new era for the Company where we have re-focused our asset base and aligned our teams for long-term success in the ever changing energy industry landscape. Our strategy has allowed us to successfully navigate the challenging business environment over the past two years, and emerge as a robust and highly competitive company.

Our foundational strategy of risk managed value creation remains intact, and we continue to believe strongly in our total return model which delivers value to our shareholders through

both profitable growth and dividends. In 2016, our primary objective was to create value through the long-term development of our Montney assets, and to ensure balance sheet strength. We executed our capital program in 2016 with exceptional workplace safety performance resulting in zero lost-time incidents for both employees and contractors. In addition, we met our production targets, reduced our debt by over \$600 million, captured structural and operating costs reductions, and added low cost reserves to build the company for the future. In short, we met our audacious goals in a year with an extremely challenging commodity price environment.

### Financial Results

In a year with continued downward pressure on crude oil and natural gas prices, ARC strengthened its balance sheet, funded a robust capital program through funds from operations and delivered positive net income. Early in the year as the price of oil dropped to \$26 per boe, we took steps to protect our financial flexibility, lowering the 2016 capital program by \$160 million and reducing the monthly dividend to \$0.05 per share. These actions allowed us to better align our cash outflows with expected funds from operations. Despite higher production volumes year-over-year, lower commodity prices impacted funds from operations which totalled \$633 million, 18 per cent lower than 2015. Cash flows were supported by \$217 million of hedging gains in 2016. ARC maintains an active financial hedging program as a mechanism to reduce volatility of revenues, increase certainty of funds from operations and protect development economics. During the year, ARC divested of various non-core assets, directing disposition proceeds, in the short term, towards reducing its net debt. We ended the year with net debt of \$356 million, which is \$600 million lower than year-end 2015, resulting in net debt to annualized funds from



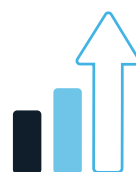
operations of 0.6 times, which is well below ARC's long-term target of one to 1.5 times. ARC's financial position is one of the strongest in the industry, and provides funding certainty to support future capital investment.

### Operational Results

Our 2016 capital program of \$450 million was successful in advancing key development projects in the Montney, growing our technical expertise and knowledge in strategic assets, and positioning ARC for the next stage of growth. In 2016, ARC drilled 64 gross operated wells and increased annual average production by four per cent year-over-year to 118,670 boe per day. Notably, the modest production increase was achieved despite a reduced capital program, and asset dispositions accounting for approximately 8,800 boe per day.

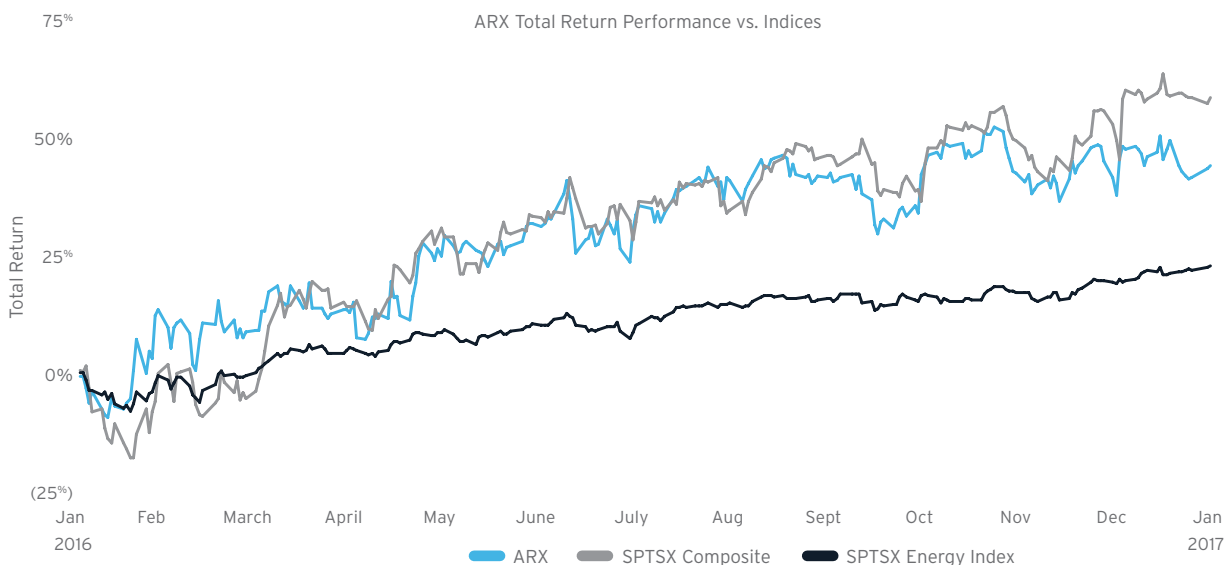
Another highlight of the year was our outstanding reserve results, as we successfully grew our proved plus probable reserves by seven per cent to 737 MMboe. This was the ninth consecutive year that ARC achieved produced reserve replacement greater than 200 per cent, replacing 260 per cent of 2016 produced reserves through development activities. Demonstrating the capital efficiency of ARC's operations these reserves were brought on at highly competitive finding and development costs of \$4.02 per boe for proved plus probable reserves<sup>(2)</sup>.

As we highlighted in last year's letter to shareholders, ARC has long been committed to running our business as a low cost producer and we continuously strive for efficiency gains and cost improvements. Operating costs continued to trend down in 2016, reaching \$6.65 per boe,



In 2016, ARC delivered a

**42%**  
annual total return  
to shareholders.



2. One year proved plus probable finding and development costs exclude future development capital.



We successfully grew our proved plus probable reserves by seven percent to

**737** MMboe



At year-end, the Montney and Pembina Cardium made up approximately

**90%** of corporate production



As we focus on delivering results to shareholders quarter-after-quarter, we will do so in a manner that promotes health and safety, builds positive relationships with communities, protects the environment and abides by our high ethical standards.

seven per cent lower than 2015 costs. As we move towards a more geographically and geologically focused asset base we expect to capitalize on greater operational synergies and improved efficiencies.

Over the course of 2016, our team advanced construction of the Dawson Phase III gas processing and liquids handling facility, which is expected to be commissioned in late 2017. Dawson Phase III will support the next stage of growth at Dawson, adding processing capacity for an additional 90 MMcf per day of natural gas and 7,500 barrels per day of liquids. The facility is designed for a higher liquids content in comparison to our existing facilities in the Dawson area. This represents the evolution of unlocking the Montney play. As we move away from the initial development area of the Dawson field into the tighter areas, and also develop lower zones, we are finding higher liquids volumes. The wells from the newly exploited areas will be brought on over time once the new facility is on-stream.

### Market Access

Proactive and strategic management of physical commodity marketing is a differentiator in our industry today where capacity is limited and pricing can vary drastically between sales points. Our marketing strategy ensures we get our production to market at optimal pricing. ARC's team takes a three pronged approach to physical marketing with a focus on market access, market diversification and price optimization. To ensure market access, we incorporate marketing plans into our long-term

development plans - securing firm capacity years before development projects are on-stream. We look to mitigate exposure to price risk through diversification of sales points combined with financial risk management. Finally, controlling all marketing activities from wellhead to sales point allows us to respond to the changing market conditions and take creative actions to optimize received pricing.

### Focused Asset Base

During the past year, ARC has continued to actively shape our portfolio to strategically position our asset base for the long term. We have focused our asset base with a greater concentration on the Montney and the Pembina Cardium. At year-end, these two areas made up approximately 90 per cent of corporate production. These changes are positioning us to better compete as a low cost producer, optimize new technology and ultimately thrive in today's market. We have a premier asset base allowing us to organically develop our assets to continue to create value.

### Montney

With 85 per cent of the capital program focused on the Montney in 2016, we grew annual Montney production by 13 per cent to 451 MMcf per day and approximately 19,360 barrels per day of production<sup>3</sup>. Producing high-value and low cost natural gas, liquids-rich gas and crude oil, ARC's northeast British Columbia Montney economics compete on a global scale with low finding and development costs of

3. Includes production from ARC's NE BC areas as well as Pouce Coupe and Ante Creek in Alberta.



approximately \$3.40 per boe for proved plus probable reserves<sup>(4)</sup>. In 2016, an independent resource evaluation again reaffirmed the long-term growth potential of our Montney assets, with shale gas Total Petroleum Initially-in-Place<sup>(5)</sup> ("TPIIP") increasing 13 per cent to 101.5 Tcf and tight oil TPIIP increasing nine per cent to 10.5 billion barrels<sup>(6)</sup>. As part of our ongoing development de-risking, we will continue to pilot new areas in the Montney, including lower zone development.

In the Montney we are building multiple long-term enduring businesses, with a self-funding model. Investment in ARC-owned and operated infrastructure allows us to strategically manage the pace of development at a field and regional level, and low reinvestment ratios contribute to sustainable and significant free cash flow.

### Pembina Cardium

The Pembina Cardium was one of ARC's founding properties at inception in 1996. This historic resource play helped build the oil and gas industry in the province of Alberta, and more than 50 years since it was first discovered, technology is recovering more resources from this extraordinary play. In 2016, ARC consolidated and expanded its position in Pembina with the addition of 3,100 boe per day of light oil production. By increasing our average working interest and gaining control over the majority of the acquired assets, we can more

efficiently develop the asset. The Cardium provides high quality light oil production with strong operating netbacks, and recent improvements to drilling operations and the use of new completion techniques are driving strong performance in the area.

### Technical Expertise

Across our industry all companies are facing the same new reality of lower commodity prices. At ARC, such challenges are met with innovation and creative thinking. At the onset of the decline in prices, our teams set to work on capturing cost savings and efficiency gains. Technical advancements in drilling and completions have resulted in industry-leading results in terms of reduced drilling days, improved well productivity and lower cost structures. These learnings have been shared across the organization as a means to enhance technical expertise and operating performance in all areas. While we continue to seek opportunities to improve our business, the improvements captured to-date will live with us as the industry rebounds.

### Capturing Opportunity in 2017

In 2017, ARC plans to execute a \$750 million capital program in a safe and environmentally responsible manner. The capital program will focus on profitable development of our Montney assets and advancing

strategic infrastructure projects. ARC is fortunate to have great portfolio depth, and the budget will invest in a strong pipeline of projects which will deliver profitable growth for the next three years. In the near term, we plan to sustain core Montney production at all of ARC's owned and operated facilities as well as the volumes produced through third party facilities. Dawson Phase III is planned for commissioning late in the year adding new production volumes. We will continue to develop our asset base and build on exceptional results with an active drilling program planned at Parkland/Tower, and will carry out pilot projects at Attachie and Pouce Coupe to de-risk and further understand these highly prospective assets. Planning for the next major stages of Montney growth, we announced a facility expansion at Parkland/Tower (Phase III), expected to be on-stream in late 2018, and have sanctioned Sunrise Phase II, which is planned to be commissioned in mid-year 2019. The capital program will also turn attention back to our Alberta oil plays with active drilling programs at Ante Creek and Pembina. ARC's tenets of capital discipline and paced development will continue to guide our capital planning.

### People Driving Results

ARC's great achievements in 2016 couldn't have happened without our employees. On behalf of the board and management team, thank

4. One year proved plus probable finding and development costs excluding future development costs for the NE BC Montney, including Pouce Coupe.

5. 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.

6. A full discussion of ARC's reserves and resources is contained in the Annual Information Form available at [www.sedar.com](http://www.sedar.com).



## 2016 was a remarkable year for ARC.

By embracing change, we have transformed our business and emerged stronger and more competitive than ever.



In 2016, an independent resource evaluation again reaffirmed the long-term growth potential of our Montney assets, with shale gas TPIIP increasing **13 per cent** to 101.5 Tcf and tight oil TPIIP increasing **9 per cent** to 10.5 billion barrels.

you to everyone for their valuable contributions to the Company. ARC aims to create a culture that is focused on leadership and performance, and supports our people in being their best. Across the Company ARC's employees came together in 2016 to solve problems big and small and to create value in all that we do.

In 2016, we welcomed Nancy Smith and David Collyer to our Board of Directors. Both individuals bring extensive experience and industry knowledge, and we look forward to continuing to work together.

We would like to recognize the important contributions made by Neil Groeneveld, who retired in 2016 from the position as Vice President of Geosciences. We are also pleased to announce the appointment of three new members to our executive team. Since the start of 2017, Chris Baldwin has been promoted to the position of Vice President of Geosciences, Ryan Berrett has been promoted to the position of Vice President of Marketing, and Armin Jahangiri has been promoted to the position of Vice President of Operations. Chris, Ryan and Armin have been important members of the ARC team for many years, and we are pleased to support them through the next stage of their careers.

### Committed to Sustainability

How we conduct our business and fulfill our economic, social and environmental responsibilities impacts the continued success of ARC. As we focus on delivering results to shareholders quarter-after-quarter, we will do so in a

manner that promotes health and safety, builds positive relationships with communities, protects the environment and abides by our high ethical standards. In 2016, we published our fifth Corporate Sustainability Report, to provide information to stakeholders, specifically on environment, social and governance performance. We encourage all shareholders to view this report at [www.arcresponsibility.com](http://www.arcresponsibility.com).

### Focused for the Future

To conclude, 2016 was a remarkable year for ARC. By embracing change, we have transformed our business and emerged stronger and more competitive than ever. Our history has proven that we can navigate through industry challenges while maintaining our long-term vision and delivering superior financial and operating results. From this strong foundation we are positioned to execute on an exciting vision, and we are planning for a prosperous future. We thank our shareholders for their continued support through what has been a difficult period for our industry and we look forward to continuing to work hard to deliver value to you.

Sincerely,

Myron M. Stadnyk  
President and Chief Executive Officer

# 2017 PRIORITIES

ARC plans to execute a \$750 million capital program in 2017. Learn more about our major projects and capital program priorities below.



## Key Infrastructure Investment

To support the next major stage of growth in the Montney, in 2017 ARC plans to invest approximately \$150 million in strategic infrastructure projects. These projects will include:

- Completion of construction at Dawson Phase III (expected to be on-stream late 2017)
- Initial planning for construction of Parkland/Tower Phase III (expected to be on-stream in late 2018)
- Front-end engineering and design work for Sunrise Phase II (expected to be on-stream in late 2019)



## Sustaining Production in the Montney

ARC's planned Montney drilling program for 2017 will sustain core Montney production from Ante Creek, Dawson, Parkland/Tower and Sunrise at or near facility capacity throughout the year.



## Planning for Tomorrow

To advance future growth in 2017, ARC will focus on development activities and pilot projects in the Montney. At our Tower property, we will execute an active drilling program and will continue to optimize tight oil completions to improve capital efficiencies. In the Lower Montney, the planned drilling program will enhance our understanding of this zone and evaluate the potential for future development. At Attachie, we are building on the success of existing pilots and will continue to apply learnings from other assets to this area to further explore and evaluate.







# 2016

## 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 8, 2017 and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2016 (the "financial statements"), and the MD&A and unaudited condensed interim consolidated financial statements for the periods ended March 31, 2016, June 30, 2016 and September 30, 2016, as well as ARC's Annual Information Form ("AIF") that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). All financial information is reported in Canadian dollars and all per share information is based on diluted weighted average common shares, unless otherwise noted.

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

### **ABOUT ARC RESOURCES LTD.**

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

ARC's vision is to be a leading energy producer, focused on delivering results through its strategy of **risk-managed value creation**. ARC is committed to providing superior long-term financial returns for its shareholders, 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 includes primarily Montney and Cardium assets. ARC's Montney assets consist of world-class resource play properties, concentrated in northeast British Columbia and northern Alberta. The Montney assets provide substantial growth opportunities, which ARC will pursue to create value through long-term profitable development. Other assets are located in Alberta and include core assets in the Cardium formation in the Pembina area of Alberta. These assets deliver stable production and contribute cash to fund future development and support ARC's dividend.
- (2) **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 crude 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 \$0.05 per share per month, and the potential for capital appreciation. ARC's long-term goal is to fund dividend payments and capital expenditures necessary for the replacement of production declines using funds from operations<sup>(1)</sup>. ARC will finance value-creating growth activities through a combination of sources including funds from operations, proceeds from property dispositions, debt capacity, and when appropriate, equity issuance. ARC chooses to maintain prudent debt levels, targeting its net debt to be one to 1.5 times annualized funds from operations and less than 20 per cent of total capitalization over the long term<sup>(1)</sup>.
- (4) **Top talent and strong leadership culture** – ARC is committed to the attraction, retention and development of the best and brightest people in the industry. ARC's employees conduct business every day in a culture of trust, respect, integrity and accountability. Building leadership talent at all levels of the organization is a key focus. ARC is also committed to corporate leadership through community investment, environmental reporting practices and open communication with all stakeholders. As of February 8, 2017, ARC had 456 employees with 250 professional, technical and support staff in the Calgary office, and 206 individuals located across ARC's operating areas in western Canada.

(1) Refer to Note 15 "Capital Management" in the financial statements and to the sections entitled "Funds from Operations" and "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

## Total Return to Shareholders

ARC's business plan has resulted in significant operational success and helped mitigate the headwinds of a challenging commodity price environment, resulting in returns that are on par with the Standard & Poor's ("S&P")/Toronto Stock Exchange ("TSX") Exploration & Producers Index (Table 1). Total return includes both capital appreciation and dividend payments and represents the sum of the change in the market price of the common shares or the index in the period assuming dividends are reinvested in the security or the index. Total return is not a standardized measure and therefore may not be comparable with the calculation of similar measures for other entities. This measure is used to assist Management and investors in evaluating the Company's performance and rate of return on a per share basis, to facilitate comparison over time and to its peers.

**Table 1**

<b>Total Returns</b> <sup>(1)</sup>	<b>Trailing One Year</b>	<b>Trailing Three Year</b>	<b>Trailing Five Year</b>
Dividends per share outstanding (\$)	<b>0.65</b>	3.05	5.45
Capital appreciation (depreciation) per share outstanding (\$)	<b>6.41</b>	(6.46)	(1.99)
Total return per share outstanding (%)	<b>42.7</b>	(11.0)	15.4
Annualized total return per share outstanding (%)	<b>42.7</b>	(3.8)	2.9
S&P/TSX Exploration & Producers Index annualized total return (%)	<b>55.8</b>	(6.3)	(3.6)

(1) Calculated as at December 31, 2016.

Since 2012, ARC's production has grown by 25,125 boe per day, or 27 per cent, while its proved plus probable reserves have grown by 129.7 MMboe, or 21 per cent. Table 2 highlights ARC's production and reserves for the last five years:

**Table 2**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Production (boe/d) <sup>(1)</sup>	<b>118,671</b>	114,167	112,387	96,087	93,546
Daily production per thousand shares <sup>(2)</sup>	<b>0.34</b>	0.34	0.35	0.31	0.31
Proved plus probable reserves (MMboe) <sup>(3)(4)</sup>	<b>736.7</b>	686.9	672.7	633.9	607.0
Proved plus probable reserves per share (boe)	<b>2.1</b>	2.0	2.1	2.0	2.0

(1) Reported production amount is based on company interest before royalty burdens.

(2) 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.

(3) As determined by ARC's independent reserve evaluator with an effective date of December 31 for the years shown in accordance with the COGE Handbook.

(4) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests. For more information, see ARC's AIF as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and the news release entitled "ARC Resources Ltd. Replaces 260 Per Cent of Produced Reserves Through Development Activities in 2016" dated February 8, 2017.

**Exhibit 1**

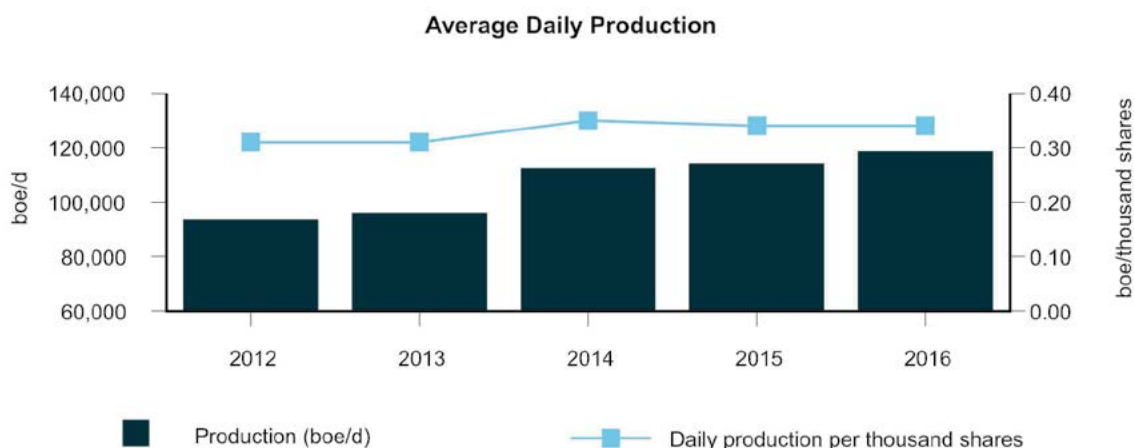


Exhibit 1a

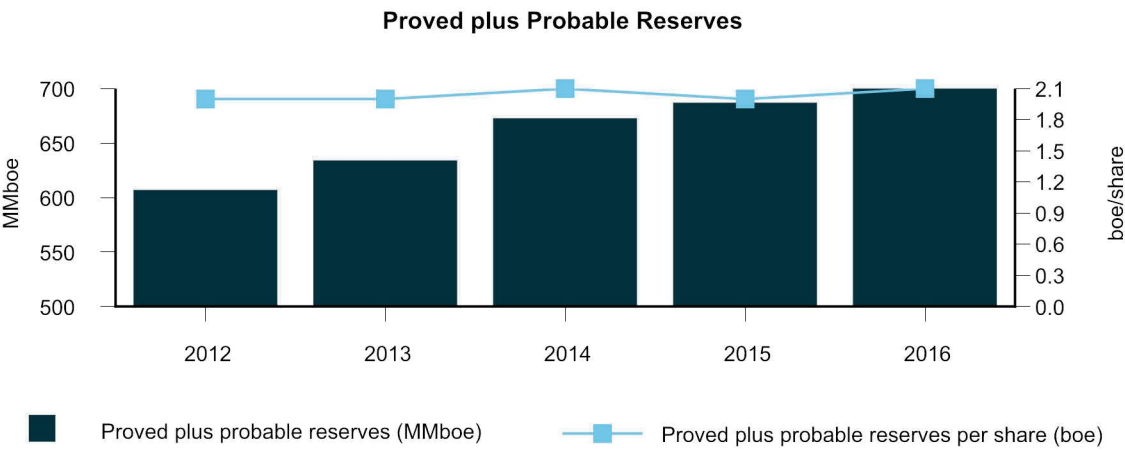
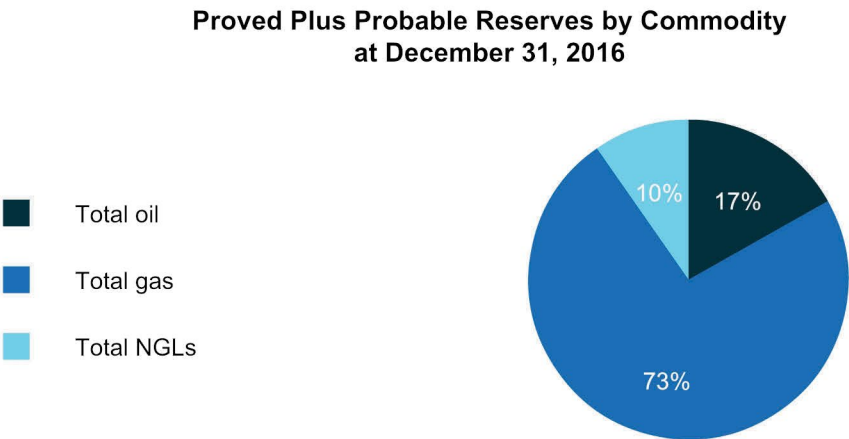


Exhibit 1b



## ECONOMIC ENVIRONMENT

ARC's 2016 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined in Table 3 below:

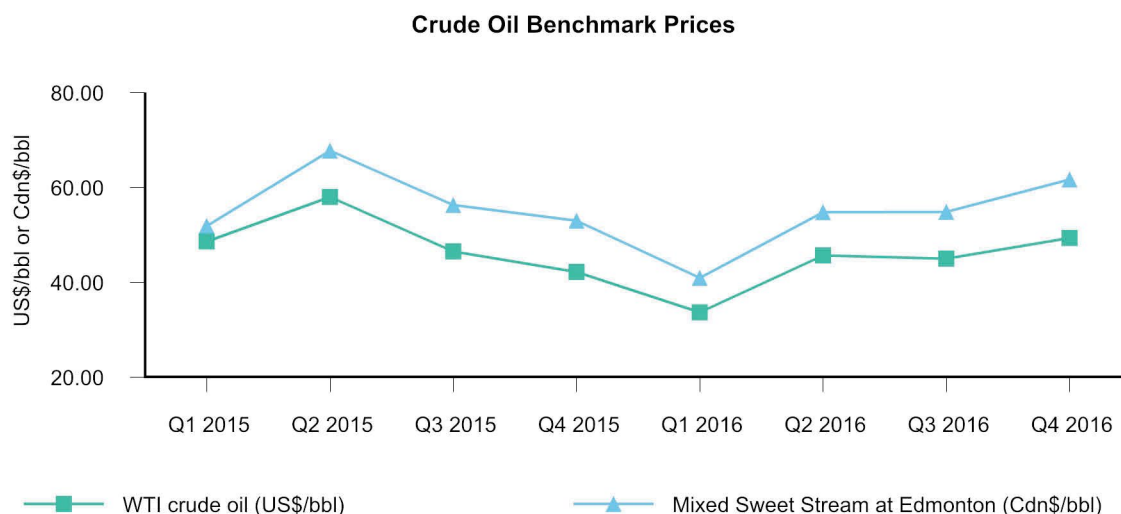
**Table 3**

Selected Benchmark Prices and Exchange Rates <sup>(1)</sup>	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% Change	2016	2015	% Change
WTI crude oil (US\$/bbl)	<b>49.29</b>	42.16	17	<b>43.47</b>	48.76	(11)
Mixed Sweet Stream Price at Edmonton (Cdn\$/bbl)	<b>61.61</b>	52.93	16	<b>53.34</b>	57.20	(7)
NYMEX Henry Hub Last Day Settlement (US\$/MMBtu)	<b>2.98</b>	2.27	31	<b>2.46</b>	2.66	(8)
Chicago Citygate Monthly Index (US\$/MMBtu)	<b>3.00</b>	2.47	21	<b>2.49</b>	2.85	(13)
AECO 7A Monthly Index (Cdn\$/Mcf)	<b>2.81</b>	2.65	6	<b>2.09</b>	2.77	(25)
Cdn\$/US\$ exchange rate	<b>1.33</b>	1.34	(1)	<b>1.32</b>	1.28	3

(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.

Global crude oil prices strengthened in the fourth quarter of 2016 as OPEC members agreed to a production cut mid-way through the quarter. The WTI benchmark price averaged 10 per cent higher than the third quarter of 2016 and 17 per cent higher than the fourth quarter of 2015. Stronger pricing was further supported by non-OPEC countries, including Russia, Kazakhstan and Oman, also agreeing to cut back their production levels. This is expected to help stabilize the global supply/demand imbalance and draw down global inventories. ARC's crude oil price is primarily referenced to the mixed sweet crude stream price at Edmonton, which increased 12 per cent in the fourth quarter of 2016 compared to the third quarter of 2016, and increased 16 per cent relative to the fourth quarter of 2015. The differential between WTI and the mixed sweet crude stream price at Edmonton widened slightly to average a discount of US\$3.11 in the fourth quarter of 2016, five per cent more than the third quarter of 2016 and 23 per cent more than the fourth quarter of 2015.

**Exhibit 2**

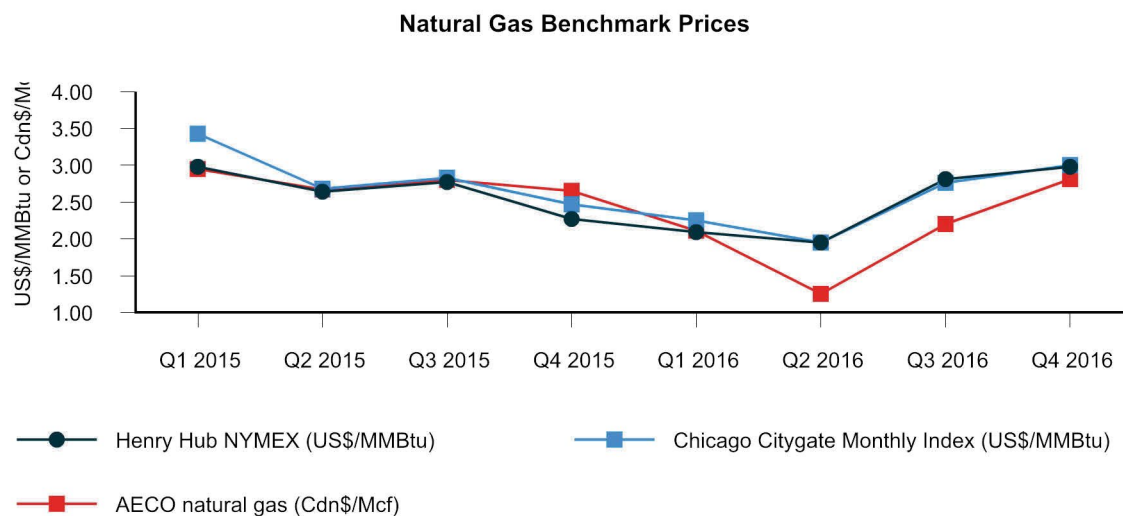


US natural gas prices, referenced by the average NYMEX Henry Hub Last Day Settlement price, increased six per cent relative to the third quarter of 2016 and increased 31 per cent relative to the fourth quarter of 2015. The increase in pricing was largely weather-related, with colder-than-normal winter temperatures experienced in the period. Natural gas prices were further supported by continued LNG exports off of the Gulf of Mexico and strong exports to Mexico. ARC's realized natural gas price is diversified to multiple sales points including AECO and Chicago hubs. The AECO hub price increased 28 per cent in the fourth quarter of 2016 relative to the third quarter of 2016 and increased six per cent relative to the fourth quarter 2015. AECO continues to trade at a significant discount to Henry Hub due to oversupply in the



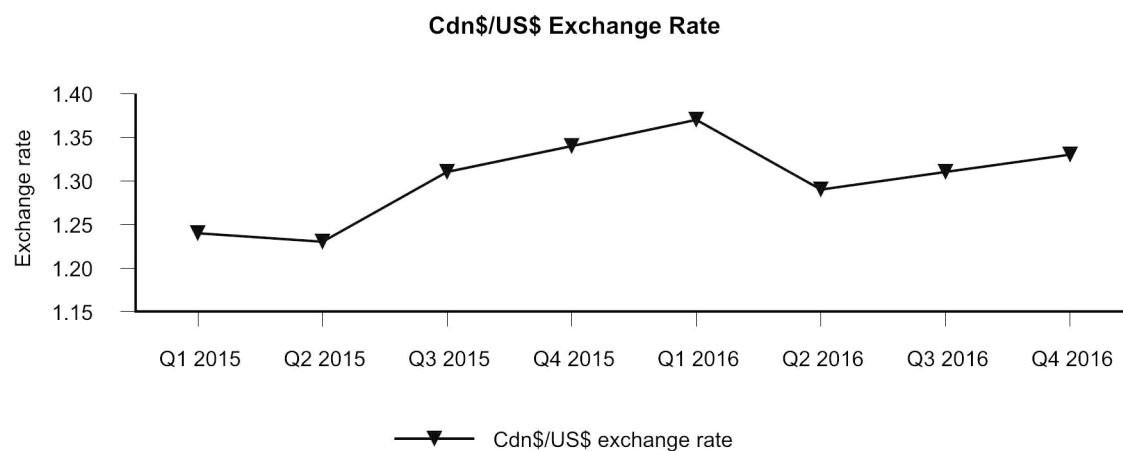
Western Canadian Sedimentary Basin. Despite strong local demand, marginal export pipeline economics are resulting in wide AECO basis differentials.

## Exhibit 2a



The Canadian dollar remained range-bound relative to the US dollar during the fourth quarter of 2016, averaging Cdn \$/US\$1.33 (US\$/Cdn\$0.75). The mild weakening in the Canadian dollar relative to the US dollar in the fourth quarter of 2016 compared to the third quarter of 2016 was affected by an increase in US interest rates during the period.

## Exhibit 2b



## ANNUAL GUIDANCE AND FINANCIAL HIGHLIGHTS

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

ARC's Board of Directors has approved an increase to ARC's 2017 capital program to \$750 million, from the \$665 million previously announced. The increased budget will continue to focus on long-term value creation through the development of ARC's crude oil, liquids-rich gas and natural gas Montney assets. The planned budget includes the addition of 29 horizontal wells, focused on rigline optimization and pre-drilling of wells. The majority of these wells will be completed in 2018. ARC plans to drill 134 operated wells in 2017. The 2017 capital program will also advance strategic initiatives at Parkland/Tower and Attachie, and includes increased investment in the Lower Montney. ARC's 2017 capital program includes infrastructure spending for the Parkland/Tower gas processing and liquids-handling facility expansion expected to come on-stream in late 2018. Front-end engineering and design work will also be initiated for the Sunrise Phase II gas processing facility expansion, the newest sanctioned project for Montney growth, expected to come on-stream mid-year 2019. Full-year 2017 annual average production is expected to be in the range of 118,000 to 124,000 boe per day. With Dawson Phase III planned to come on-stream in late 2017, ARC anticipates its 2017 exit rate to be in excess of 130,000 boe per day.

Ongoing commodity price volatility may affect ARC's funds from operations and over the long term, profitability of capital programs. As continued volatility is expected, ARC will continue to take steps to mitigate these risks, including managing an active hedging program, focusing on capital and operating efficiencies, and protecting its strong financial position, with a net debt to funds from operations ratio of 0.6 times at year-end 2016. ARC will continue to screen projects for profitability in a disciplined manner and will adjust spending and the pace of development, if required, to ensure balance sheet strength is protected. The 2017 capital budget excludes land purchases and property acquisitions or dispositions. ARC will continue to consolidate its land position and grow its presence in key areas through land purchases and property acquisitions. ARC evaluates its asset portfolio on a continuous basis with a view to sell assets that do not meet ARC's investment guidelines. Through the normal course of business, acquisitions and dispositions may occur that would impact the expected production for the year.

ARC's 2017 full-year guidance has been revised to incorporate increased 2017 capital spending of approximately \$750 million. Full-year average production guidance has been revised downward to a range of 118,000 to 124,000 boe per day from the previously guided range of 128,000 to 133,000 boe per day, reflecting the impact of approximately 7,500 boe per day of crude oil and liquids production divested in the fourth quarter of 2016, as well as the 13 per cent increase in capital spending. Full-year guidance for operating expenses was lowered to a range of \$6.30 to \$6.70 per boe to reflect the revised production guidance and the continued focus on ARC's northeast British Columbia Montney assets, which have lower relative costs to operate. Full-year guidance for current income tax was increased to a range of five to 10 per cent of funds from operations, and relates primarily to increased commodity prices and reduced tax pools associated with property dispositions. Full-year guidance for weighted average shares outstanding has been revised to reflect the elimination of ARC's DRIP and SDP. All other 2017 per boe guidance estimates that have changed from the original guidance announced on November 10, 2016 reflect revised production guidance for 2017.

Table 4 is a summary of ARC's 2017 and 2016 annual guidance and a review of 2016 actual results.

**Table 4**

	2017 Original Guidance	2017 Guidance	2016 Guidance <sup>(1)</sup>	2016 Actuals	% Variance from Guidance
<b>Production</b>					
Crude oil (bbl/d)	33,000 - 36,000	25,000 - 28,000	32,000 - 34,000	<b>31,510</b>	(2)
Condensate (bbl/d)	4,900 - 5,300	5,000 - 5,500	3,400 - 3,800	<b>3,626</b>	—
Natural gas (MMcf/d)	510 - 520	505 - 515	470 - 480	<b>475.6</b>	—
NGLs (bbl/d)	4,500 - 4,900	4,000 - 4,500	4,100 - 4,500	<b>4,274</b>	—
Total (boe/d)	128,000 - 133,000	118,000 - 124,000	118,000 - 122,000	<b>118,671</b>	—
<b>Expenses (\$/boe)</b>					
Operating	6.80 - 7.20	6.30 - 6.70	6.90 - 7.20	<b>6.65</b>	(4)
Transportation	2.20 - 2.40	2.25 - 2.45	2.40 - 2.70	<b>2.20</b>	(8)
G&A expenses before share-based compensation plans	1.10 - 1.30	1.15 - 1.35	1.55 - 1.65	<b>1.60</b>	—
G&A - share-based compensation plans <sup>(2)</sup>	0.60 - 0.70	0.65 - 0.75	0.45 - 0.65	<b>0.69</b>	6
Interest	0.90 - 1.10	1.00 - 1.20	1.10 - 1.30	<b>1.16</b>	—
Current income tax (per cent of funds from operations) <sup>(3)</sup>	0 - 5	5 - 10	0 - 3	<b>4</b>	33
Capital expenditures before land purchases and net property acquisitions (dispositions) (\$ millions)	665	750	450	<b>453.4</b>	1
Land purchases and net property acquisitions (dispositions) (\$ millions)	N/A	N/A	N/A	<b>(529.8)</b>	N/A
Weighted average shares, diluted (millions)	355	353	351	<b>351</b>	—

(1) Incorporates the impact of approximately 3,100 boe per day of light, high-netback crude oil production in Pembina acquired in the second, third, and fourth quarters of 2016 which resulted in an annual volume increase of approximately 1,400 boe per day of production.

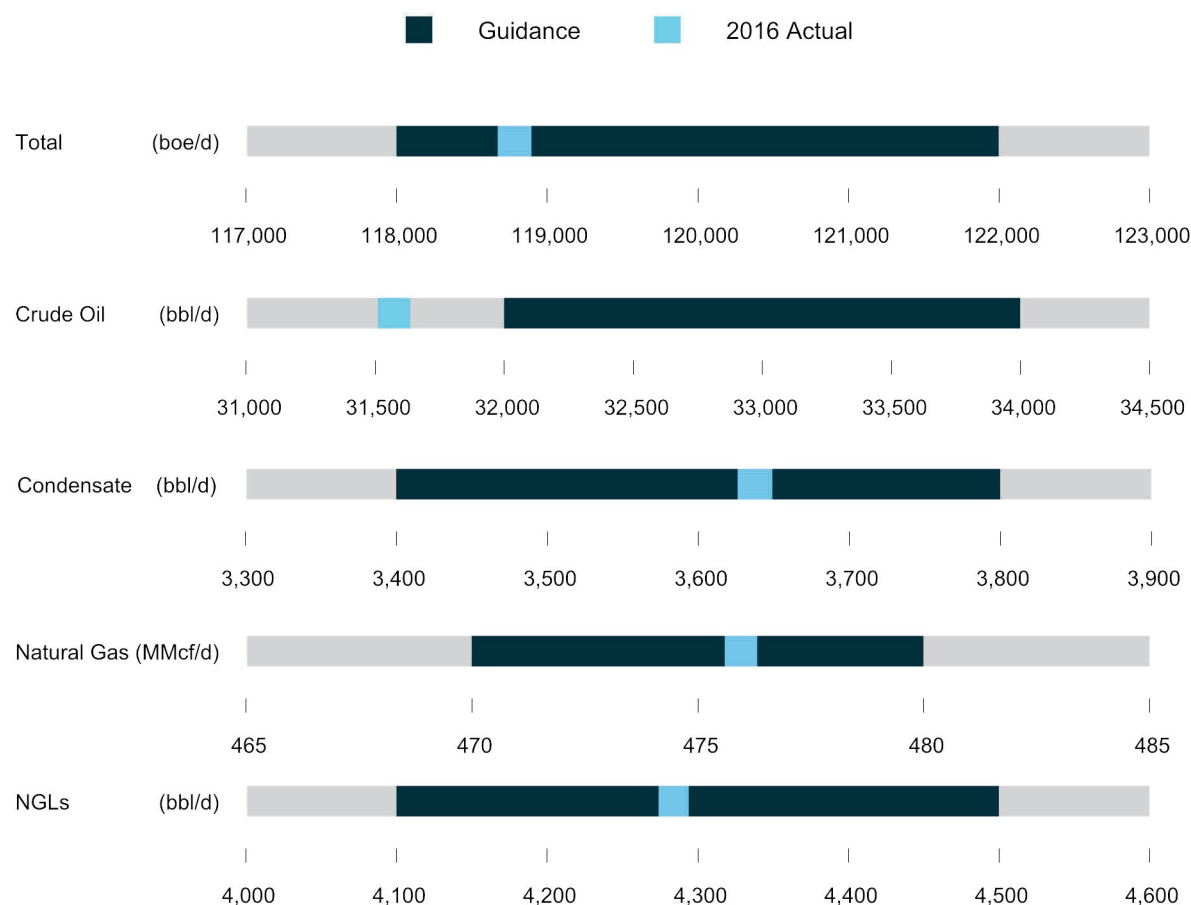
(2) Comprises expenses recognized under the Restricted Share Unit and Performance Share Unit Plan, Share Option Plan and Long-term Restricted Share Award Plan. In periods where substantial share price fluctuation occurs, ARC's G&A expenses are subject to greater volatility.

(3) The current income tax estimates vary depending on the level of commodity prices.

ARC's 2016 financial and operating results were largely in line with guidance. Production for the year ended December 31, 2016 fell within the guidance range; crude oil production was two per cent below the guidance range, while condensate, natural gas and NGLs production were within their respective guidance ranges. On a per boe basis, ARC's 2016 operating expenses were below the 2016 guidance range due to diligent cost control efforts undertaken by ARC's field operations teams and the disposition of properties with higher relative costs to operate. On a per boe basis, ARC's 2016 transportation expenses were below the 2016 guidance range due to increased pipeline connectivity and reduced trucking activity in the year. ARC's 2016 G&A expenses relating to share-based compensation plans were six per cent above the 2016 guidance range due primarily to the increase in ARC's share price and improved total return relative to its peers. ARC's 2016 current income taxes as a percentage of funds from operations were above the 2016 guidance range as a result of reduced tax pools associated with property dispositions.

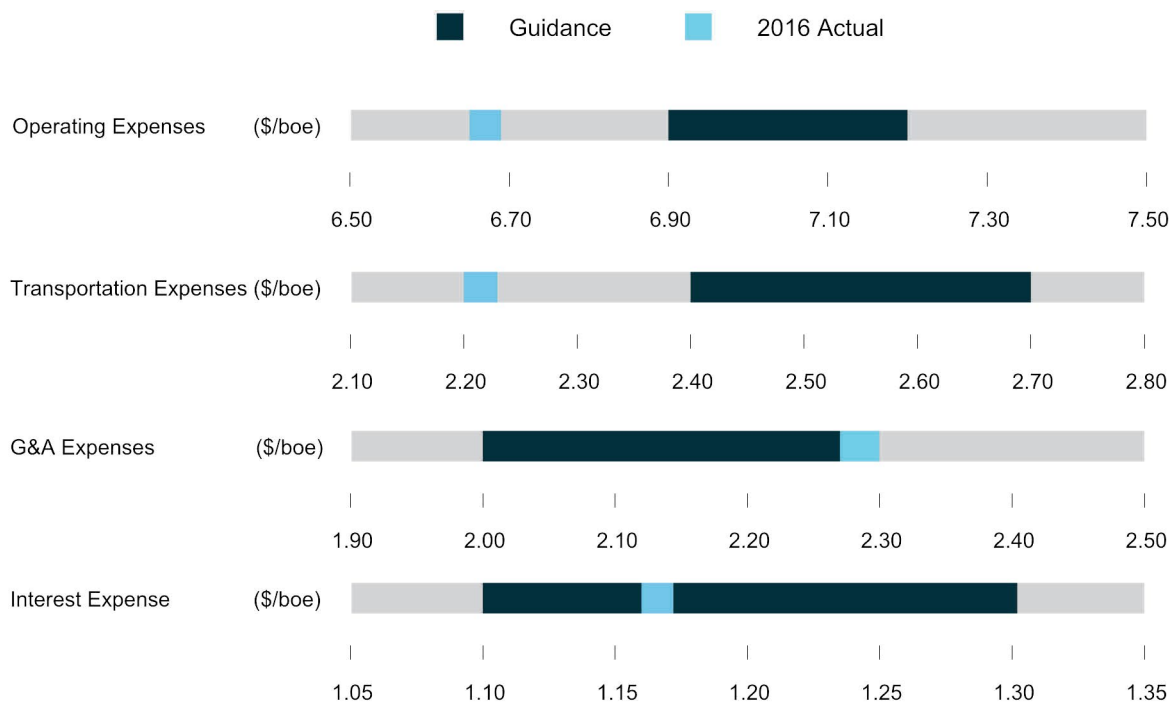
### Exhibit 3

#### 2016 Production Guidance



## Exhibit 3a

### 2016 Expenses Guidance



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



## 2016 FOURTH QUARTER FINANCIAL AND OPERATING RESULTS

### Financial Highlights

Table 5

	Three Months Ended December 31			Year Ended December 31		
(\$ millions, except per share and volume data)	2016	2015	% Change	2016	2015	% Change
Net income (loss)	<b>167.0</b>	(55.0)	(404)	<b>201.3</b>	(342.7)	(159)
Net income (loss) per share	<b>0.47</b>	(0.16)	(394)	<b>0.57</b>	(1.01)	(156)
Funds from operations <sup>(1)</sup>	<b>188.5</b>	200.7	(6)	<b>633.3</b>	773.4	(18)
Funds from operations per share <sup>(1)</sup>	<b>0.53</b>	0.58	(9)	<b>1.80</b>	2.27	(21)
Dividends per share <sup>(2)</sup>	<b>0.15</b>	0.30	(50)	<b>0.65</b>	1.20	(46)
Average daily production (boe/d)	<b>117,611</b>	119,243	(1)	<b>118,671</b>	114,167	4

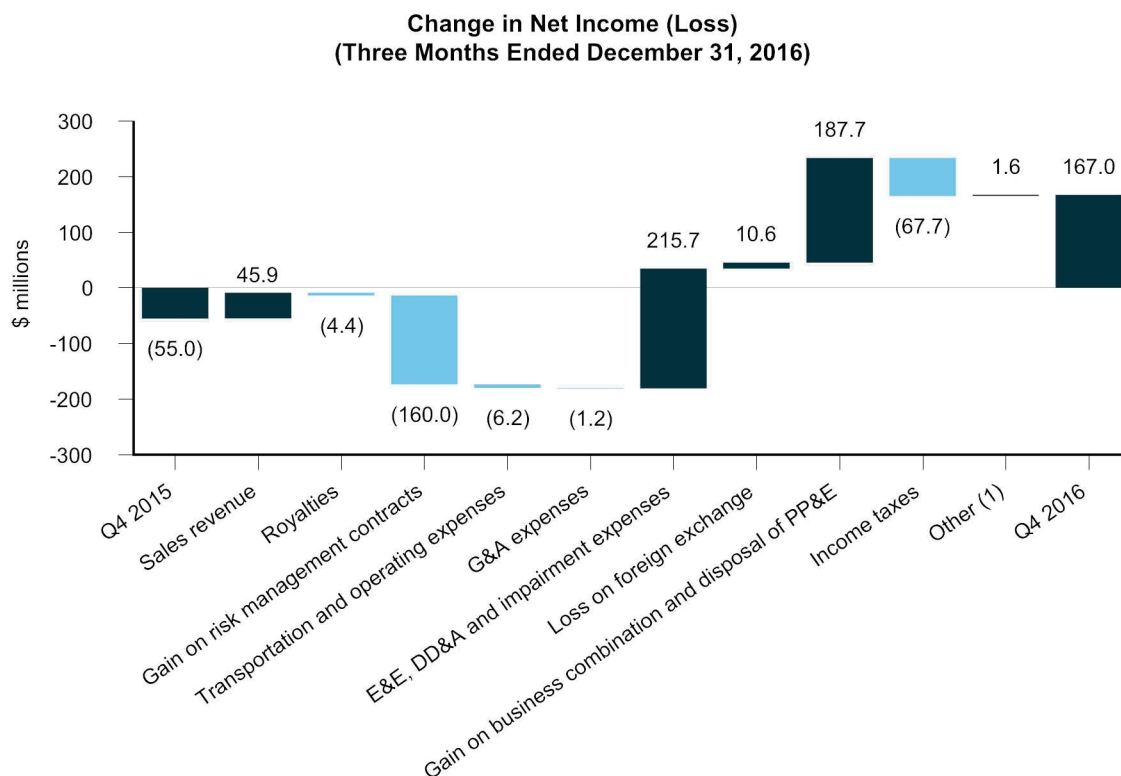
(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

### Net Income (Loss)

In the fourth quarter of 2016, ARC recognized net income of \$167.0 million (income of \$0.47 per share), \$222.0 million higher than ARC's fourth quarter of 2015 net loss of \$55.0 million (loss of \$0.16 per share). Netbacks in the fourth quarter of 2016 were higher by \$35.3 million, primarily as a result of improved commodity prices. In the fourth quarter of 2015, ARC recorded an impairment charge of \$131.3 million on its PP&E assets, while ARC recognized an impairment reversal of \$68.4 million during the fourth quarter of 2016. ARC undertook some portfolio management activities in the fourth quarter of 2016 which resulted in the recognition of gains of \$196.0 million. These gains were partially offset by losses on risk management contracts in the fourth quarter of 2016 compared to gains in the fourth quarter of 2015, as well as higher income tax expenses.

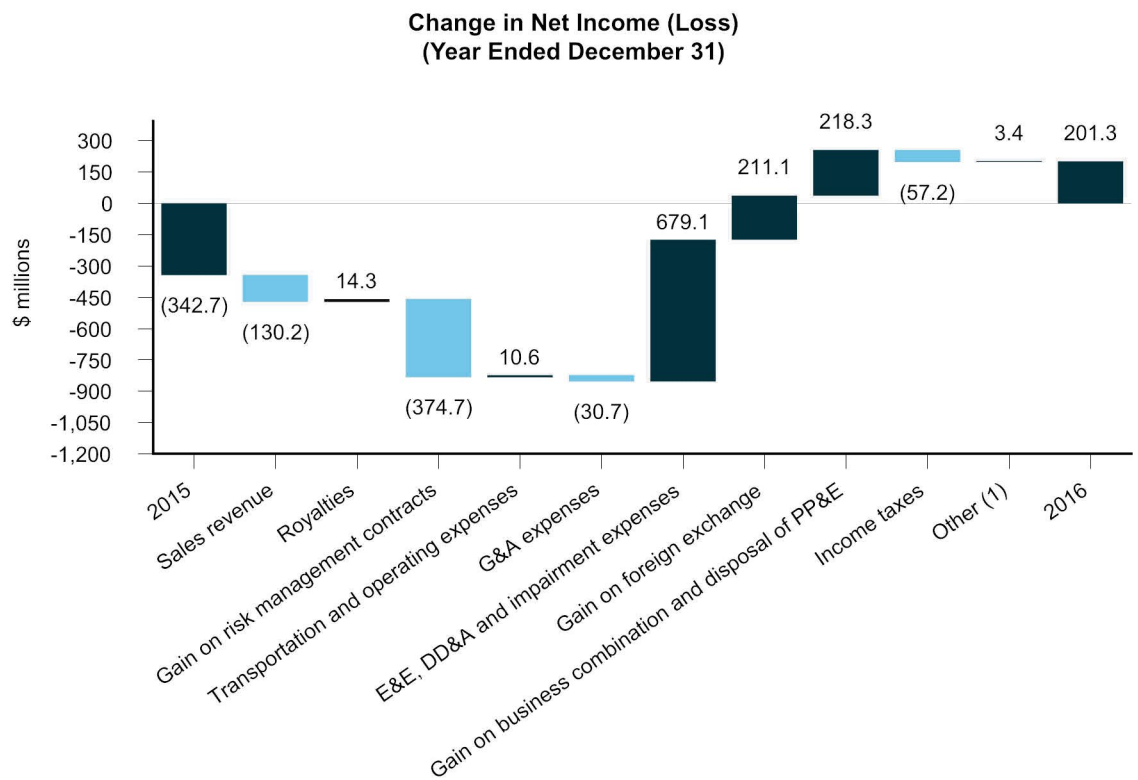
## Exhibit 4



(1) Includes gain or loss on short-term investments, accretion of ARO, and interest and financing charges.

The greatest impact on net income in 2016 as compared to 2015 was the recognition of impairment charges of \$469.6 million in 2015, while in 2016 ARC recognized impairment reversals of \$68.3 million. Additionally, ARC's portfolio management activities throughout the year resulted in gains of \$196.0 million and the value of the US dollar relative to the Canadian dollar weakened in 2016 as compared to 2015, resulting in a foreign exchange gain in 2016 compared to a loss in 2015. These increases were partially offset by reduced gains on risk management contracts, lower revenue net of royalties due to lower commodity prices, and an increase in income tax and G&A expenses.

## Exhibit 4a



(1) Includes gain or loss on short-term investments, accretion of ARO, and interest and financing charges.

## Funds from Operations

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

ARC reports funds from operations in total and on a per share basis. Refer to Note 15 "Capital Management" in the financial statements. Table 6 is a reconciliation of ARC's net income (loss) to funds from operations and cash flow from operating activities:

**Table 6**

	Three Months Ended		Year Ended	
	December 31		December 31	
(\$ millions)	2016	2015	2016	2015
Net income (loss)	167.0	(55.0)	201.3	(342.7)
Adjusted for the following non-cash items:				
DD&A and impairment	47.3	263.0	431.5	1,065.4
Accretion of ARO	3.0	3.3	12.1	13.4
E&E expenses	—	—	1.7	46.9
Deferred tax expense (recovery)	43.5	3.2	16.0	(6.8)
Unrealized loss (gain) on risk management contracts	99.8	(41.6)	253.2	(152.0)
Unrealized loss (gain) on foreign exchange	23.1	34.9	(34.5)	178.5
Gain on business combinations	—	—	(53.9)	—
Gain on disposal of petroleum and natural gas properties	(196.0)	(8.3)	(196.0)	(31.6)
Other	0.8	1.2	1.9	2.3
<b>Funds from operations</b>	<b>188.5</b>	<b>200.7</b>	<b>633.3</b>	<b>773.4</b>
Net change in other liabilities	(7.5)	(4.0)	(4.7)	(22.0)
Change in non-cash operating working capital	(21.7)	(20.9)	2.1	(62.4)
<b>Cash flow from operating activities</b>	<b>159.3</b>	<b>175.8</b>	<b>630.7</b>	<b>689.0</b>

Details of the change in funds from operations from the three months and year ended December 31, 2015 to the three months and year ended December 31, 2016 are included in Table 7 below:

**Table 7**

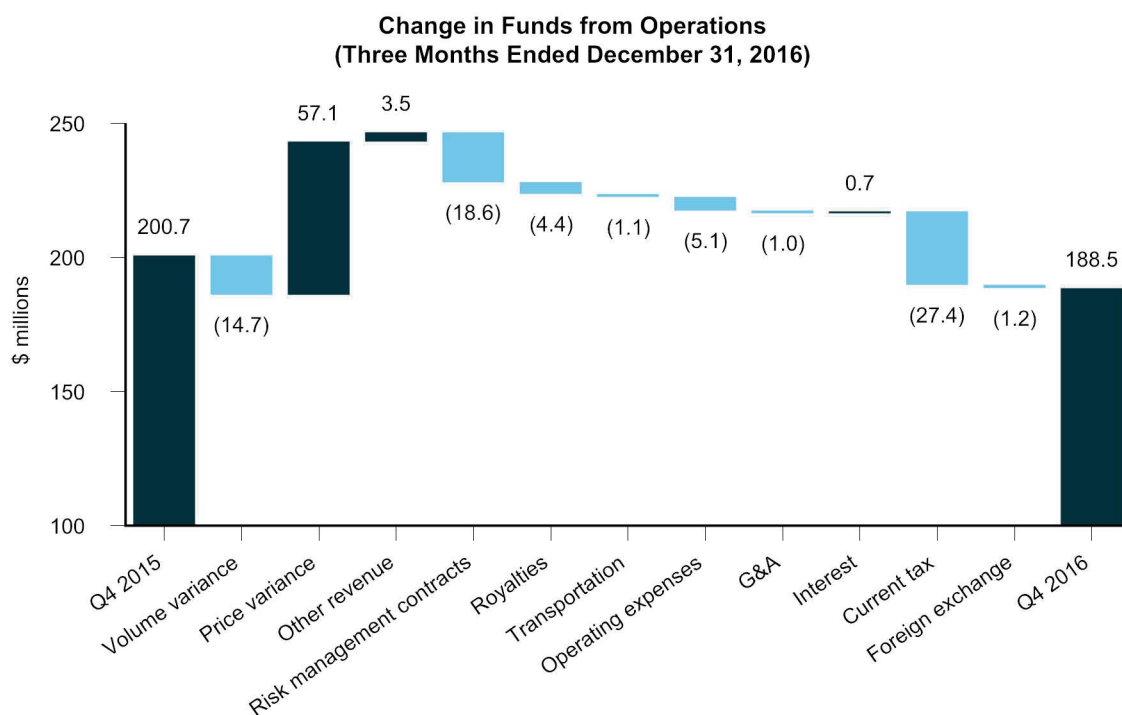
	Three Months Ended December 31		Year Ended December 31	
	\$ millions	\$/Share	\$ millions	\$/Share
Funds from operations – 2015	200.7	0.58	773.4	2.27
Volume variance				
Crude oil and liquids	(16.9)	(0.06)	(16.6)	(0.05)
Natural gas	2.2	0.01	33.7	0.11
Price variance				
Crude oil and liquids	34.5	0.10	(35.9)	(0.11)
Natural gas	22.6	0.06	(113.8)	(0.33)
Other revenue	3.5	0.01	2.4	0.01
Realized gain on risk management contracts	(18.6)	(0.05)	30.5	0.09
Royalties	(4.4)	(0.01)	14.3	0.04
Expenses				
Transportation	(1.1)	—	1.6	—
Operating	(5.1)	(0.01)	9.0	0.03
G&A	(1.0)	—	(29.5)	(0.09)
Interest	0.7	—	0.5	—
Current tax	(27.4)	(0.08)	(34.4)	(0.10)
Realized loss on foreign exchange	(1.2)	—	(1.9)	(0.01)
Weighted average shares, diluted	—	(0.02)	—	(0.06)
Funds from operations – 2016	188.5	0.53	633.3	1.80

Funds from operations decreased by six per cent in the fourth quarter of 2016 to \$188.5 million from \$200.7 million generated in the fourth quarter of 2015. The decrease primarily reflects higher current tax expenses, lower realized gains on risk management contracts, and decreased crude oil production in the fourth quarter of 2016 as compared to the fourth quarter of 2015. Increased commodity prices relative to the fourth quarter of the prior year partially offset the decrease.

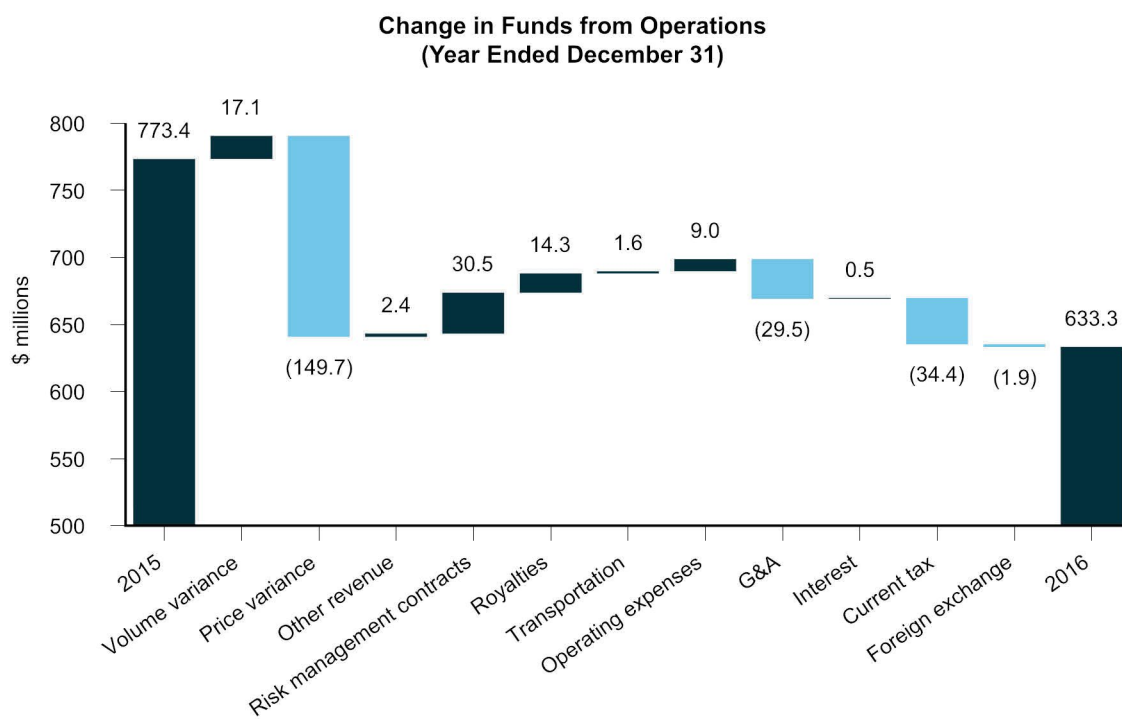
For the year ended December 31, 2016, funds from operations decreased by \$140.1 million to \$633.3 million from \$773.4 million in the same period of 2015. This decrease reflects lower sales revenue net of royalties primarily associated with lower realized commodity prices, an increase in current taxes and G&A, and decreased crude oil production. The decrease was partially offset by increased natural gas production and realized gains on risk management contracts, along with decreased operating costs.



## Exhibit 5



## Exhibit 5a



## 2016 Net Income and Funds from Operations Sensitivity

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

**Table 8**

			Impact on Annual Net Income and Funds from Operations <sup>(6)</sup>	
	Assumption	Change	Notional amount (\$ millions)	\$/Share
<b>Business Environment</b> <sup>(1)</sup>				
Crude oil price (US\$ WTI/bbl) <sup>(2)(3)</sup>	43.47	1.00	11.6	0.033
Natural gas price (Cdn\$ AECO/Mcf) <sup>(2)(3)</sup>	2.09	0.10	11.6	0.033
Cdn\$/US\$ exchange rate <sup>(2)(3)(4)</sup>	1.32	0.01	3.5	0.010
<b>Operational</b> <sup>(5)</sup>				
Crude oil and liquids production volumes (bbl/d)	39,410	1.0%	4.2	0.012
Natural gas production volumes (MMcf/d)	475.6	1.0%	2.5	0.007
Operating expenses (\$/boe)	6.65	1.0%	2.1	0.006
G&A expenses (\$/boe)	2.29	10.0%	6.3	0.018

(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, 2016. 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.

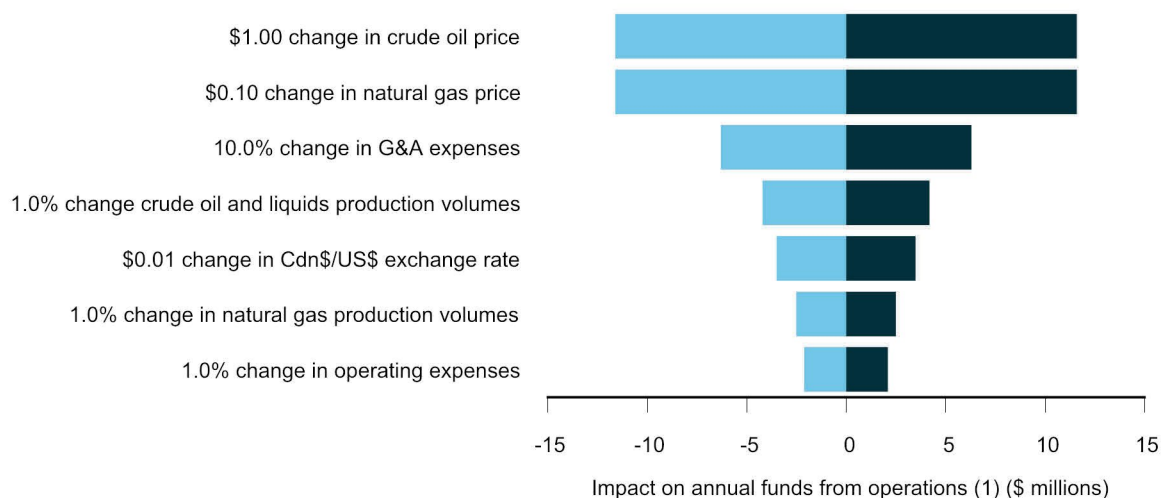
(4) Includes impact of foreign exchange on crude oil, condensate, and NGLs prices that are presented in US dollars.

(5) Operational assumptions are based upon results for the year ended December 31, 2016.

(6) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

## Exhibit 6

### Funds from Operations Sensitivity (prior to hedging)



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

## Production

**Table 9**

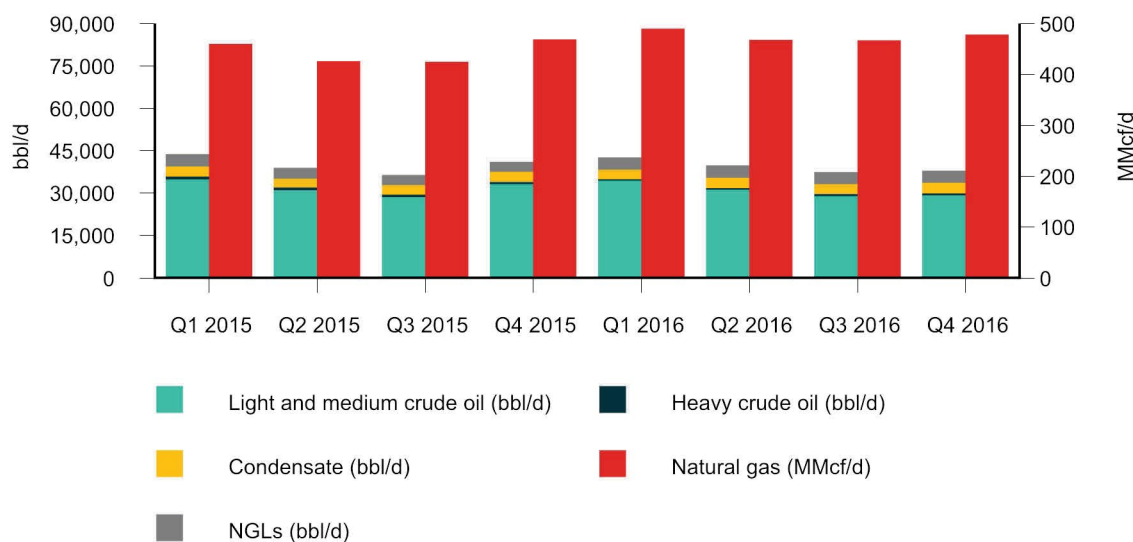
Production	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% Change	2016	2015	% Change
Light and medium crude oil (bbl/d)	<b>29,184</b>	33,124	(12)	<b>30,906</b>	31,827	(3)
Heavy crude oil (bbl/d)	<b>701</b>	775	(10)	<b>604</b>	935	(35)
Condensate (bbl/d)	<b>3,767</b>	3,631	4	<b>3,626</b>	3,430	6
Natural gas (MMcf/d)	<b>478.4</b>	469.1	2	<b>475.6</b>	444.9	7
NGLs (bbl/d)	<b>4,220</b>	3,523	20	<b>4,274</b>	3,819	12
Total production (boe/d)	<b>117,611</b>	119,243	(1)	<b>118,671</b>	114,167	4
% Natural gas production	<b>68</b>	66	3	<b>67</b>	65	3
% Crude oil and liquids production	<b>32</b>	34	(6)	<b>33</b>	35	(6)

During the three months and year ended December 31, 2016, crude oil and liquids production decreased eight per cent and two per cent compared to the same periods of the prior year, respectively. The decreases reflect the disposition of ARC's non-core Saskatchewan and Manitoba assets at the end of the fourth quarters of 2016 and 2015 that had been producing approximately 7,500 boe per day and 1,300 boe per day prior to disposal, respectively, as well as natural declines associated with reduced drilling activity in other non-core areas. Partially offsetting this decrease is additional production at Tower following the crude oil battery expansion that was completed during the fourth quarter of 2015, as well as the acquisition of certain properties in the Pembina area of Alberta producing approximately 3,100 boe per day in the second, third and fourth quarters of 2016.

Natural gas production was 478.4 MMcf per day in the fourth quarter of 2016, an increase of two per cent from the 469.1 MMcf per day produced in the fourth quarter of 2015. For the year ended December 31, 2016, natural gas production was 475.6 MMcf per day, an increase of seven per cent from the 444.9 MMcf per day for the same period in the prior year. The increase in both periods is mainly attributed to production from new wells flowing through the Sunrise gas plant which was commissioned during the third quarter of 2015. The increase in natural gas production was partially offset by the disposition of certain non-core assets in South Central Alberta in the second quarter of 2015 and throughout 2016 which had been producing approximately 14.4 MMcf per day and 7.8 MMcf prior to disposal, respectively.

## Exhibit 7

**Average Daily Production**



During the fourth quarter of 2016, ARC drilled 30 wells on operated properties consisting of 14 crude oil wells and 16 liquids-rich natural gas wells. For the year ended December 31, 2016, ARC drilled 64 gross (63.5 net) wells on operated properties consisting of 34 crude oil wells, nine natural gas wells, 20 (19.5 net) liquids-rich natural gas wells, and one injection well.

Table 10 summarizes ARC's production by core area for the fourth quarter of 2016 and 2015:

**Table 10**

Three Months Ended December 31, 2016					
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area <sup>(1)</sup>	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Northeast BC	78,093	6,747	2,877	398.4	2,068
Northern AB <sup>(2)</sup>	19,300	6,415	621	64.4	1,526
Pembina <sup>(3)</sup>	11,019	8,218	175	13.1	448
South Central AB <sup>(4)</sup>	3,686	3,235	14	2.1	86
Southeast SK <sup>(5)</sup>	5,513	5,270	80	0.4	92
Total	117,611	29,885	3,767	478.4	4,220

Three Months Ended December 31, 2015					
Production	Total	Crude Oil	Condensate	Natural Gas	NGLs
Core Area <sup>(1)</sup>	(boe/d)	(bbl/d)	(bbl/d)	(MMcf/d)	(bbl/d)
Northeast BC	73,964	6,344	2,677	379.8	1,637
Northern AB <sup>(2)</sup>	20,780	7,394	703	68.9	1,194
Pembina <sup>(3)</sup>	10,368	7,618	195	12.8	432
South Central AB <sup>(4)</sup>	4,821	3,593	6	6.4	150
Southeast SK <sup>(5)</sup>	9,310	8,950	50	1.2	110
Total	119,243	33,899	3,631	469.1	3,523

(1) Provincial references: "AB" is Alberta, "BC" is British Columbia, "SK" is Saskatchewan, "MB" is Manitoba.

(2) During the fourth quarter of 2016, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 600 boe per day prior to disposal.

(3) During the second, third and fourth quarters of 2016, ARC acquired certain assets in this district producing approximately 3,100 boe per day.

(4) During the second and third quarters of 2015, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 2,900 boe per day prior to disposal. An additional 700 boe per day of non-core assets were disposed from this district toward the end of the second quarter of 2016.

(5) During the fourth quarter of 2015, ARC disposed of certain non-core assets in this district that had been producing approximately 1,300 boe per day prior to disposal. During the fourth quarter of 2016, ARC disposed of the remaining assets in this district, of which the volumetric impact is approximately 1,900 boe per day during the quarter.

## Exhibit 8

### Production by Core Area (Three Months Ended December 31, 2016)

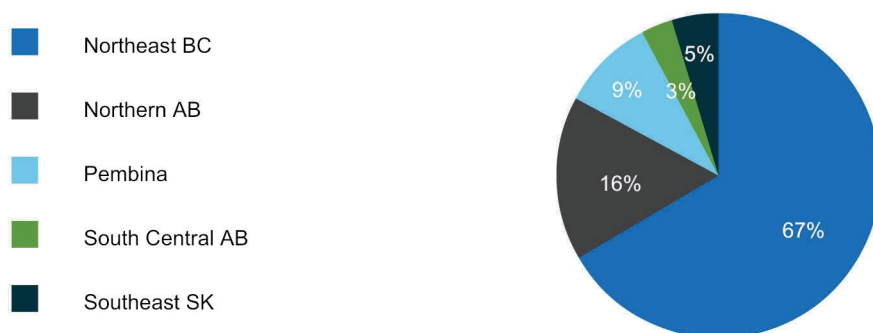


Table 10a summarizes ARC's production by core area for the years ended December 31, 2016 and 2015:

**Table 10a**

Year Ended December 31, 2016					
Production Core Area <sup>(1)</sup>	Total (boe/d)	Crude Oil (bbl/d)	Condensate (bbl/d)	Natural Gas (MMcf/d)	NGLs (bbl/d)
Northeast BC	77,619	7,299	2,739	392.5	2,160
Northern AB <sup>(2)</sup>	19,565	6,564	637	65.6	1,436
Pembina <sup>(3)</sup>	10,285	7,494	178	12.9	456
South Central AB <sup>(4)</sup>	3,974	3,190	17	3.8	139
Southeast SK <sup>(5)</sup>	7,228	6,963	55	0.8	83
<b>Total</b>	<b>118,671</b>	<b>31,510</b>	<b>3,626</b>	<b>475.6</b>	<b>4,274</b>
Year Ended December 31, 2015					
Production Core Area <sup>(1)</sup>	Total (boe/d)	Crude Oil (bbl/d)	Condensate (bbl/d)	Natural Gas (MMcf/d)	NGLs (bbl/d)
Northeast BC	66,022	3,406	2,461	350.8	1,687
Northern AB <sup>(2)</sup>	21,035	7,497	710	68.5	1,402
Pembina <sup>(3)</sup>	10,992	8,227	175	12.9	446
South Central AB <sup>(4)</sup>	6,166	3,996	33	11.6	196
Southeast SK <sup>(5)</sup>	9,952	9,636	51	1.1	88
<b>Total</b>	<b>114,167</b>	<b>32,762</b>	<b>3,430</b>	<b>444.9</b>	<b>3,819</b>

(1) Provincial references: "AB" is Alberta, "BC" is British Columbia, "SK" is Saskatchewan, "MB" is Manitoba.

(2) During the fourth quarter of 2016, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 600 boe per day prior to disposal.

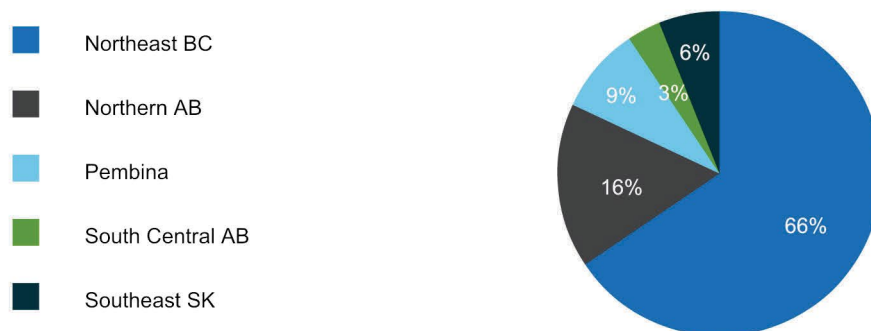
(3) During the second, third and fourth quarters of 2016, ARC acquired certain assets in this district producing approximately 3,100 boe per day.

(4) During the second and third quarters of 2015, ARC disposed of certain non-core assets in this district. These assets had been producing approximately 2,900 boe per day prior to disposal. An additional 700 boe per day of non-core assets were disposed from this district toward the end of the second quarter of 2016.

(5) During the fourth quarter of 2015, ARC disposed of certain non-core assets in this district that had been producing approximately 1,300 boe per day prior to disposal. During the fourth quarter of 2016, ARC disposed of the remaining assets in this district, of which the volumetric impact is approximately 500 boe per day during the year.

## Exhibit 8a

**Production by Core Area  
(Year Ended December 31, 2016)**



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

Sales revenue from crude oil, natural gas, condensate, NGLs and other income increased by 16 per cent in the fourth quarter of 2016 compared to the same period in 2015. The increase primarily reflects higher average realized commodity prices in the fourth quarter of 2016 compared to the fourth quarter of 2015 and was partially offset by decreased crude oil production volumes.

For the year ended December 31, 2016, sales revenue from crude oil, natural gas, condensate, NGLs and other income decreased by 11 per cent compared to the same period in 2015. The decrease reflects lower average realized commodity prices for crude oil, natural gas and condensate in 2016 as compared to 2015, and was partially offset by increased natural gas, condensate and NGLs production volumes.



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

**Table 11**

Sales Revenue by Product (\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% Change	2016	2015	% Change
Crude oil	162.6	153.5	6	580.5	640.1	(9)
Condensate	20.5	16.6	23	67.7	67.4	—
Natural gas	136.5	111.7	22	387.8	467.9	(17)
NGLs	8.1	3.5	131	21.7	14.9	46
Total sales revenue from crude oil, natural gas, condensate and NGLs	327.7	285.3	15	1,057.7	1,190.3	(11)
Other income	4.1	0.6	583	5.8	3.4	71
Total sales revenue	331.8	285.9	16	1,063.5	1,193.7	(11)

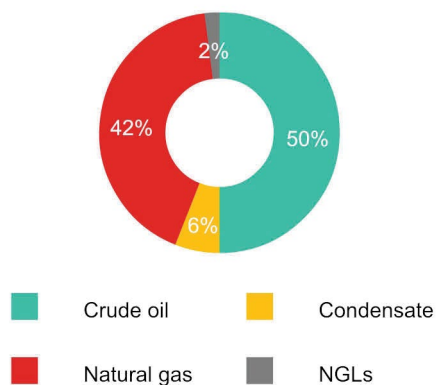
While ARC's production mix on a per boe basis is weighted more heavily to natural gas than to crude oil and liquids, ARC's sales revenue contribution is more heavily weighted to crude oil and liquids production as shown by the table below:

**Table 12**

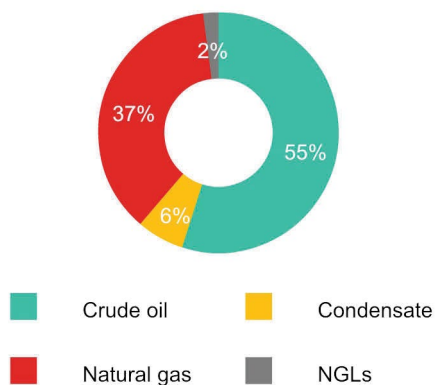
Sales Revenue by Product Type	Three Months Ended December 31		Year Ended December 31	
	2016	2015	2016	2015
	% of Total Sales Revenue	% of Total Sales Revenue	% of Total Sales Revenue	% of Total Sales Revenue
Crude oil and liquids	58	61	63	61
Natural gas	42	39	37	39
Total sales revenue from crude oil, natural gas, condensate and NGLs	100	100	100	100

**Exhibit 9**

**Sales Revenue by Product  
(Three Months ended December 31, 2016)**



**Sales Revenue by Product  
(Year ended December 31, 2016)**



## Commodity Prices Prior to Hedging

Table 13

	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% Change	2016	2015	% Change
<b>Average Benchmark Prices</b>						
NYMEX Henry Hub Last Day Settlement (US\$/MMBtu)	2.98	2.27	31	2.46	2.66	(8)
Chicago Citygate Monthly Index (US\$/MMBtu)	3.00	2.47	21	2.49	2.85	(13)
AECO 7A Monthly Index (Cdn\$/Mcf)	2.81	2.65	6	2.09	2.77	(25)
WTI crude oil (US\$/bbl)	49.29	42.16	17	43.47	48.76	(11)
Cdn\$/US\$ exchange rate	1.33	1.34	(1)	1.32	1.28	3
WTI crude oil (Cdn\$/bbl)	65.56	56.49	16	57.38	62.41	(8)
Mixed Sweet Stream Price at Edmonton (Cdn\$/bbl)	61.61	52.93	16	53.34	57.20	(7)
<b>ARC Average Realized Prices Prior to Hedging</b>						
Crude oil (\$/bbl)	59.20	49.24	20	50.34	53.53	(6)
Condensate (\$/bbl)	58.97	49.80	18	50.98	53.84	(5)
Natural gas (\$/Mcf)	3.10	2.59	20	2.23	2.88	(23)
NGLs (\$/bbl)	20.77	10.73	94	13.85	10.70	29
Total average realized commodity price prior to other income and hedging (\$/boe)	30.29	26.01	16	24.35	28.57	(15)
Other income (\$/boe)	0.38	0.05	660	0.14	0.08	75
Total average realized price prior to hedging (\$/boe)	30.67	26.06	18	24.49	28.65	(15)

In the fourth quarter of 2016, WTI increased 17 per cent to US\$49.29 per barrel as compared to US\$42.16 per barrel in the same period in 2015. ARC's realized crude oil price increased 20 per cent over the same time period, averaging \$59.20 per barrel. During the fourth quarter of 2016, the differential between WTI and Edmonton posted prices widened to an average discount of US\$3.11 per barrel compared to US\$2.52 per barrel in the same period in 2015, while the average exchange rate for the Canadian dollar as compared to the US dollar was relatively flat at \$1.33. The widening of the differential between WTI and the Mixed Sweet Stream Price at Edmonton for crude oil was mitigated by the impact of the increase in WTI on ARC's average realized price.

For the year ended December 31, 2016, ARC's realized crude oil price was six per cent lower as compared to the same period in 2015. This price decrease is primarily attributed to the 11 per cent decrease in WTI over the same time period, partially offset by the effect of a narrowed differential between WTI and the Mixed Sweet Stream Price at Edmonton for crude oil and a weaker Canadian dollar.

ARC's realized natural gas price increased by 20 per cent during the fourth quarter of 2016 as compared to the same period in 2015, while ARC's realized natural gas price decreased by 23 per cent for the year ended December 31, 2016 as compared to the same period in 2015. ARC's realized natural gas price is primarily benchmarked against the AECO monthly index, which was six per cent higher during the fourth quarter of 2016 and 25 per cent lower for the year ended December 31, 2016 as compared to the same periods in 2015. ARC's realized natural gas price was higher than the AECO monthly index price for the three months and year ended December 31, 2016 as a portion of ARC's production is sold at the AECO daily index and US Midwest pricing points which settled on average above the AECO monthly index.

## Risk Management

ARC maintains a risk management program to reduce the volatility of sales revenues, increase the certainty of funds from operations, and to protect acquisition and development economics. ARC's risk management program is governed by certain guidelines approved by ARC's Board of Directors (the "Board"). These guidelines currently restrict risk management contracts to a maximum of 55 per cent of production guidance over the next two years and 25 per cent of production guidance beyond two years and up to five years where a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent. 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 14 summarizes the total gain or loss on risk management contracts for the fourth quarter of 2016 compared to the same period in 2015:

**Table 14**

<b>Risk Management Contracts</b> (\$ millions)	<b>Crude Oil &amp; Liquids</b>	<b>Natural Gas</b>	<b>Power</b>	<b>Q4 2016 Total</b>	<b>Q4 2015 Total</b>
Realized gain (loss) on contracts <sup>(1)</sup>	6.5	28.0	(1.2)	<b>33.3</b>	51.9
Unrealized gain (loss) on contracts <sup>(2)</sup>	(24.9)	(74.3)	(0.6)	<b>(99.8)</b>	41.6
Gain (loss) on risk management contracts	<b>(18.4)</b>	<b>(46.3)</b>	<b>(1.8)</b>	<b>(66.5)</b>	93.5

(1) Represents actual cash settlements under the respective contracts.

(2) Represents the change in fair value of the contracts during the period.

Table 14a summarizes the total gain or loss on risk management contracts for the year ended December 31, 2016 compared to the same period in 2015:

**Table 14a**

<b>Risk Management Contracts</b> (\$ millions)	<b>Crude Oil &amp; Liquids</b>	<b>Natural Gas</b>	<b>Power</b>	<b>2016 Total</b>	<b>2015 Total</b>
Realized gain (loss) on contracts <sup>(1)</sup>	60.2	159.5	(3.2)	<b>216.5</b>	186.0
Unrealized gain (loss) on contracts <sup>(2)</sup>	(98.3)	(152.6)	(2.3)	<b>(253.2)</b>	152.0
Gain (loss) on risk management contracts	<b>(38.1)</b>	<b>6.9</b>	<b>(5.5)</b>	<b>(36.7)</b>	338.0

(1) Represents actual cash settlements under the respective contracts.

(2) Represents the change in fair value of the contracts during the period.

During the three months and year ended December 31, 2016, ARC recorded losses of \$66.5 million and \$36.7 million, respectively, on its risk management contracts. These losses comprised realized gains of \$33.3 million and unrealized losses of \$99.8 million for the fourth quarter and realized gains of \$216.5 million and unrealized losses of \$253.2 million for the year ended December 31, 2016. The realized gains primarily reflect positive cash settlements received on crude oil swaps with an average price of \$77.20/bbl and crude oil collars with a floor of \$70.00/bbl, on NYMEX Henry Hub natural gas contracts with an average floor price of US\$4.00/MMBtu, on AECO swaps at an average price of \$2.99/GJ, and on AECO basis swaps at an average ratio of 90.3 per cent.

ARC's unrealized losses for the three months and year ended December 31, 2016 reflect higher forward curves for WTI, NYMEX Henry Hub and AECO. The positive settlement of expired positions also contributed to the losses. For the fourth quarter of 2016, these unrealized losses were partially offset by a wider AECO basis at December 31, 2016 than at December 31, 2015.

ARC's risk management contracts provide protection from declining natural gas prices for 2017 to 2020 and for crude oil for 2017 to 2018. Table 15 summarizes ARC's average crude oil and natural gas hedged volumes as at the date of this MD&A. For a complete listing and terms of ARC's risk management contracts at December 31, 2016, see Note 16 "Financial Instruments and Market Risk Management" in the financial statements.

Table 15

<b>Hedge Positions Summary <sup>(1)</sup></b>										
As at February 8, 2017	<b>H1 2017</b>		<b>H2 2017</b>		<b>2018</b>		<b>2019</b>		<b>2020</b>	
<b>Crude Oil – WTI <sup>(2)</sup></b>	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day
Ceiling	55.54	11,000	56.22	14,000	65.39	4,000	—	—	—	—
<b>Floor</b>	44.55	11,000	45.71	14,000	50.00	4,000	—	—	—	—
Sold Floor	34.38	8,000	35.23	11,000	40.00	4,000	—	—	—	—
<b>Crude Oil – Cdn\$ WTI <sup>(3)</sup></b>	Cdn\$/bbl	bbl/day	Cdn\$/bbl	bbl/day	Cdn\$/bbl	bbl/day	Cdn\$/bbl	bbl/day	Cdn\$/bbl	bbl/day
Ceiling	83.38	3,000	—	—	76.25	2,000	—	—	—	—
<b>Floor</b>	70.00	3,000	—	—	65.00	2,000	—	—	—	—
Swap	—	—	—	—	75.00	1,500	—	—	—	—
<b>Total Crude Oil Volumes Hedged (bbl/day)</b>		<b>14,000</b>		<b>14,000</b>		<b>7,500</b>		<b>—</b>		<b>—</b>
<b>Crude Oil – MSW (Differential to WTI) <sup>(4)</sup></b>	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day	US\$/bbl	bbl/day
Swap	(3.22)	10,000	(3.22)	10,000	—	—	—	—	—	—
<b>Natural Gas – NYMEX Henry Hub <sup>(5)</sup></b>	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day
Ceiling	3.37	20,000	3.37	20,000	4.47	140,000	5.00	40,000	—	—
<b>Floor</b>	3.00	20,000	3.00	20,000	3.64	140,000	4.00	40,000	—	—
Sold Floor	—	—	—	—	2.50	50,000	—	—	—	—
Swap	4.00	145,000	4.00	145,000	—	—	—	—	—	—
<b>Natural Gas – AECO <sup>(6)</sup></b>	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day	Cdn\$/GJ	GJ/day
Ceiling	—	—	—	—	—	—	3.30	10,000	3.60	30,000
<b>Floor</b>	—	—	—	—	—	—	3.00	10,000	3.08	30,000
Swap	2.64	60,000	2.78	86,630	2.99	44,932	3.16	20,000	3.35	30,000
<b>Total Natural Gas Volumes Hedged (MMBtu/day)</b>		<b>221,869</b>		<b>247,110</b>		<b>182,587</b>		<b>68,435</b>		<b>56,869</b>
<b>Natural Gas – AECO Basis (Percentage of NYMEX)</b>	AECO/ NYMEX	MMBtu/day	AECO/ NYMEX	MMBtu/day	AECO/ NYMEX	MMBtu/day	AECO/ NYMEX	MMBtu/day	AECO/ NYMEX	MMBtu/day
Sold Swap	89.7	145,000	89.7	145,000	84.9	90,000	83.7	40,000	—	—
<b>Natural Gas – AECO Basis (Differential to NYMEX)</b>	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day	US\$/MMBtu	MMBtu/day
Sold Swap	(0.81)	70,000	(0.81)	70,000	(0.74)	65,000	(0.71)	70,000	(0.67)	60,000
Bought Swap	(1.07)	(16,298)	—	—	—	—	—	—	—	—
<b>Total AECO Basis Volumes (Differential to NYMEX)</b>		<b>53,702</b>		<b>70,000</b>		<b>65,000</b>		<b>70,000</b>		<b>60,000</b>
<b>Total AECO Basis Volumes Hedged (MMBtu/day)</b>		<b>198,702</b>		<b>215,000</b>		<b>155,000</b>		<b>110,000</b>		<b>60,000</b>

(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 16 "Financial Instruments and Market Risk Management" in the financial statements.

(2) Crude oil prices referenced to WTI.

(3) Crude oil prices referenced to WTI, multiplied by the Bank of Canada monthly average noon day rate.

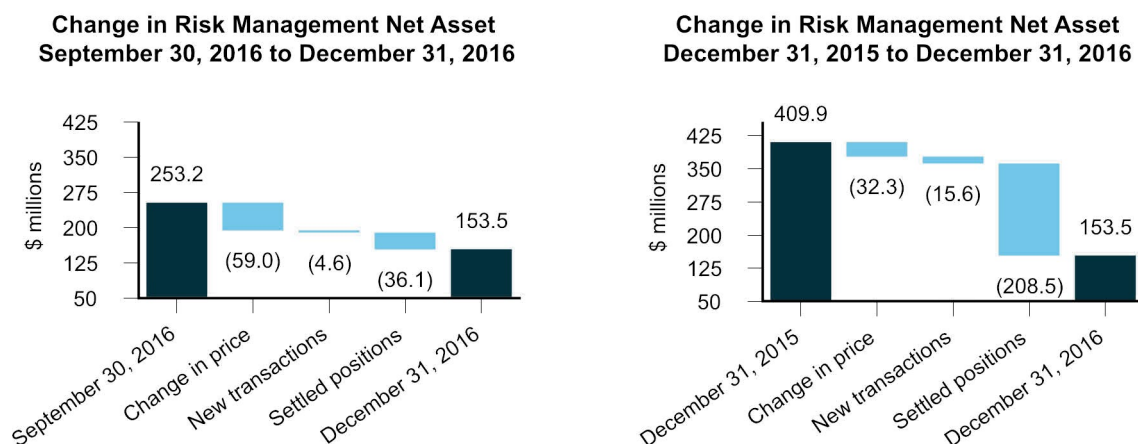
(4) MSW differential refers to the discount between WTI and the mixed sweet crude stream price at Edmonton, calculated on a monthly weighted average basis in US\$.

(5) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.

(6) Natural gas prices referenced to AECO 7A Monthly Index.

The fair value of ARC's risk management contracts at December 31, 2016 was a net asset of \$153.5 million, representing the expected market price to settle ARC's contracts at the balance sheet date after any adjustments for credit risk. This may differ from what will eventually be settled in future periods.

#### Exhibit 10



#### Operating Netbacks

ARC's fourth quarter operating netbacks prior to hedging and including realized hedging gains and losses were \$19.11 per boe and \$22.19 per boe, representing increases of 22 per cent and nine per cent as compared to the same period in 2015, respectively.

The components of operating netbacks for the fourth quarter of 2016 compared to the same period in 2015 are summarized in Table 16:

**Table 16**

Netbacks <sup>(1)</sup>	Light and Medium Crude Oil (\$/bbl)	Heavy Crude Oil (\$/bbl)	Condensate (\$/bbl)	Natural Gas (\$/Mcf)	NGLs (\$/bbl)	Q4 2016 Total (\$/boe)	Q4 2015 Total (\$/boe)
Average sales price	59.59	42.89	58.97	3.10	20.77	30.29	26.01
Other income	—	—	—	—	—	0.38	0.05
Total sales	59.59	42.89	58.97	3.10	20.77	30.67	26.06
Royalties	(7.00)	(1.34)	(8.67)	(0.08)	(3.80)	(2.47)	(2.03)
Transportation	(2.67)	(0.54)	(2.64)	(0.32)	(7.95)	(2.32)	(2.19)
Operating expenses <sup>(2)</sup>	(14.02)	(13.47)	(5.49)	(0.69)	(6.54)	(6.77)	(6.21)
Netback prior to hedging	35.90	27.54	42.17	2.01	2.48	19.11	15.63
Realized hedging gain	2.00	—	—	0.63	—	3.08	4.73
Netback after hedging	37.90	27.54	42.17	2.64	2.48	22.19	20.36
% of total netback	43	1	6	50	—	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 light and medium crude oil, heavy crude oil, condensate, natural gas and NGLs production.

ARC's 2016 operating netbacks prior to hedging and including realized hedging gains and losses were \$13.59 per boe and \$18.57 per boe, representing decreases of 19 per cent and 12 per cent as compared to the same period in 2015, respectively.

The components of operating netbacks for the year ended December 31, 2016 compared to the same period in 2015 are summarized in Table 16a:

**Table 16a**

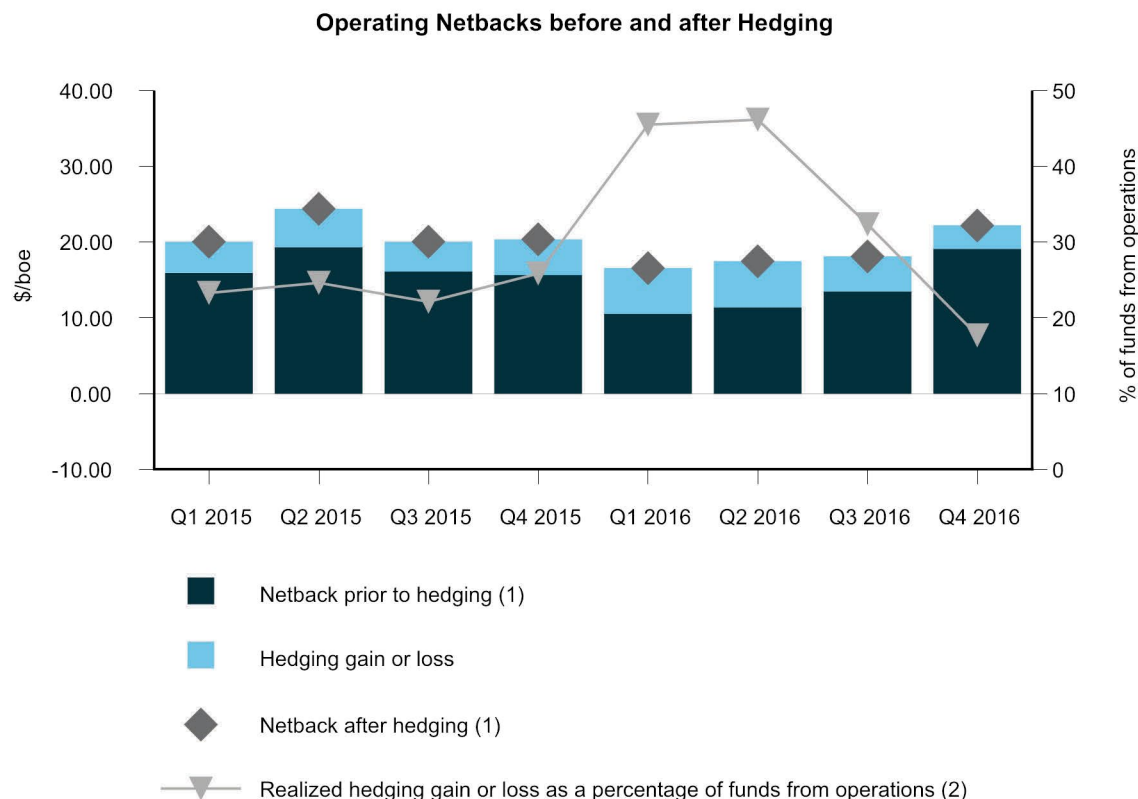
<b>Netbacks <sup>(1)</sup></b>	<b>Light and Medium Crude Oil</b>	<b>Heavy Crude Oil</b>	<b>Condensate</b>	<b>Natural Gas</b>	<b>NGLs</b>	<b>2016 Total</b>	<b>2015 Total</b>
	(\$/bbl)	(\$/bbl)	(\$/bbl)	(\$/Mcf)	(\$/bbl)	(\$/boe)	(\$/boe)
Average sales price	50.69	32.62	50.98	2.23	13.85	<b>24.35</b>	28.57
Other income	—	—	—	—	—	<b>0.14</b>	0.08
Total sales	50.69	32.62	50.98	2.23	13.85	<b>24.49</b>	28.65
Royalties	(5.65)	(1.22)	(8.70)	(0.05)	(2.57)	<b>(2.05)</b>	(2.48)
Transportation	(2.70)	(0.63)	(2.33)	(0.29)	(7.00)	<b>(2.20)</b>	(2.33)
Operating expenses <sup>(2)</sup>	(13.11)	(13.14)	(5.75)	(0.69)	(6.49)	<b>(6.65)</b>	(7.15)
Netback prior to hedging	29.23	17.63	34.20	1.20	(2.21)	<b>13.59</b>	16.69
Realized hedging gain	5.04	—	—	0.92	—	<b>4.98</b>	4.46
Netback after hedging	34.27	17.63	34.20	2.12	(2.21)	<b>18.57</b>	21.15
% of total netback	48	—	6	46	—	<b>100</b>	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 light and medium crude oil, heavy crude oil, condensate, natural gas and NGLs production.



## Exhibit 11



(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) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

## Royalties

ARC paid royalties to the respective provincial governments and landowners of the three western Canadian provinces in which it operated throughout the year. Approximately 85 per cent of these royalties were Crown royalties. Each province has established a separate and distinct royalty regime which impacts ARC's average corporate royalty rate.

In British Columbia, two thirds of ARC's royalty expense stems from production of crude oil. This has changed significantly from periods prior to 2016 when the majority of ARC's royalty expense was attributed to the production of natural gas. This change in the composition of royalty expense is due to lower natural gas prices which have reduced ARC's natural gas royalties, combined with increased crude oil production from ARC's Tower field. Royalty rates for crude oil are based on commodity prices, well royalty classification and well productivity.

In Alberta, the majority of ARC's royalties are related to crude oil production where royalty rates are based on reference prices, production levels and well depths. Similarly, most royalties remitted in Saskatchewan relate to crude oil production and royalty calculations are based on commodity prices, the classification of the product and well productivity. In the fourth quarter of 2016, ARC disposed of its remaining interests in the Saskatchewan properties and is no longer subject to Saskatchewan Crown royalties.

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 after which point the royalty rate usually increases depending on the production rate of the well and prevailing market commodity prices.

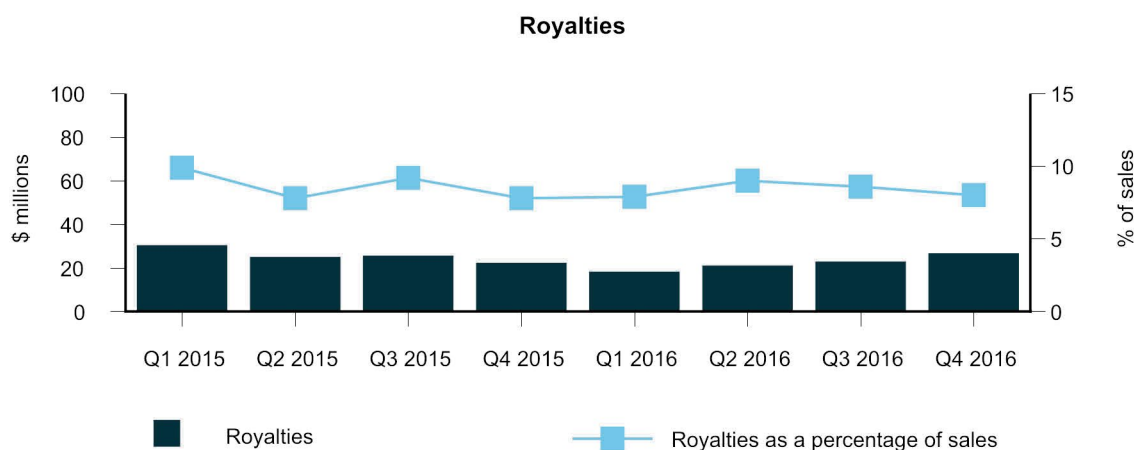
In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that came into effect on January 1, 2017. These highlights include the replacement of royalty credits and holidays on conventional wells through a Drilling and Completion Cost Allowance to emulate a revenue minus cost framework, a post-payout royalty rate based on commodity prices, and the reduction of royalty rates for mature wells, with the intent of delivering a neutral internal rate of return for any given play compared to the previous royalty framework. No changes will be made to the royalty structure of wells drilled prior to January 2017 for a 10-year period from the royalty program's implementation date unless a producer applies to opt in to the MRF for wells that otherwise would have not been drilled. Details of the MRF calibration formulas have been released and more specific information can be found on the provincial government's website.

For ARC, the economics of drilling in Ante Creek Montney and Pembina Cardium, within expected price ranges, are relatively consistent with those under the previous Alberta Royalty Framework. In Pouce Coupe, economics of drilling are improved as a result of the MRF. ARC opted in to the MRF for the drilling of Pouce Coupe wells in ARC's fourth quarter 2016 development program.

Total royalties as a percentage of pre-hedged commodity product sales revenue increased from 7.8 per cent (\$2.03 per boe) in the fourth quarter of 2015 to 8.0 per cent (\$2.47 per boe) in the fourth quarter of 2016. Total royalties increased from \$22.3 million in the fourth quarter of 2015 to \$26.7 million in the fourth quarter of 2016. The increase reflects the sliding scale effect of increased commodity prices on royalty rates in the fourth quarter of 2016 compared to the same period of the prior year.

For the year ended December 31, 2016, total royalties represented 8.4 per cent of pre-hedged commodity product sales (\$2.05 per boe) as compared to 8.7 per cent (\$2.48 per boe) for the same period in 2015. The decrease reflects the sliding scale effect of decreased commodity prices on royalty rates, as well as the increase in natural gas production volumes which have lower royalty rates as compared to the rates applied to crude oil and liquids production volumes.

## Exhibit 12

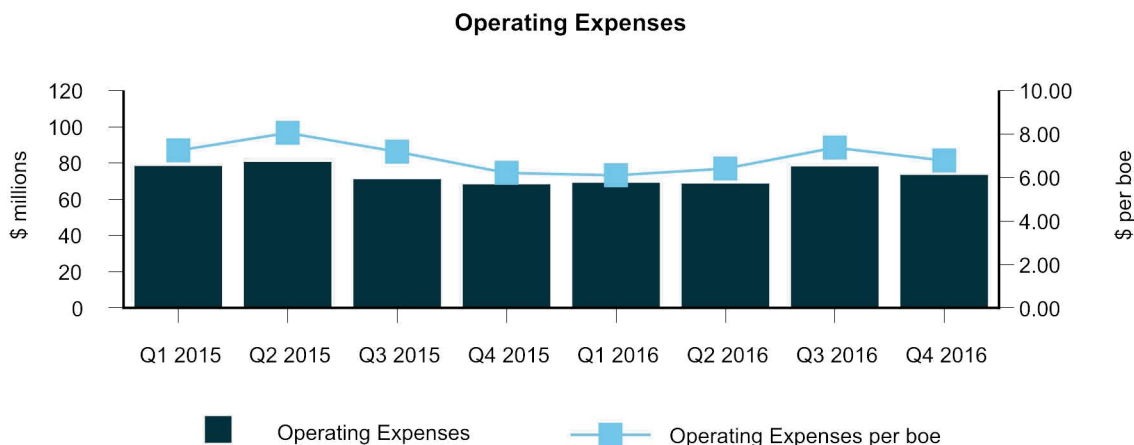


## Operating and Transportation Expenses

Operating expenses increased \$0.56 per boe to \$6.77 per boe in the fourth quarter of 2016 compared to \$6.21 per boe in the fourth quarter of 2015. On an absolute dollar basis, operating expenses have also increased by \$5.1 million or seven per cent in the fourth quarter of 2016 as compared to the fourth quarter of 2015. The increase in operating expenses for this period primarily relates to additional operating costs associated with properties acquired in the second and third quarters of 2016 and increased maintenance activities across ARC's operated areas. This increase was partially offset by the disposition of non-core Saskatchewan assets near the end of the fourth quarter of 2016, which had higher average operating costs than ARC's corporate average.

For the year ended December 31, 2016, operating expenses decreased by \$9.0 million or \$0.50 per boe compared to the prior year. The decrease in operating costs for the year ended December 31, 2016 is mainly a result of the disposition of certain non-core assets in 2016 having higher average operating costs, increased production volumes from new wells with relatively lower average operating costs, and diligent cost control efforts, including negotiating service cost decreases with many of ARC's suppliers throughout 2015 and 2016. Additionally, electricity costs were lower in the year ended December 31, 2016 at an average Alberta Power Pool Rate of \$18.16 per megawatt hour compared to an average of \$33.41 per megawatt hour in the year ended December 31, 2015, further reducing operating costs year-over-year.

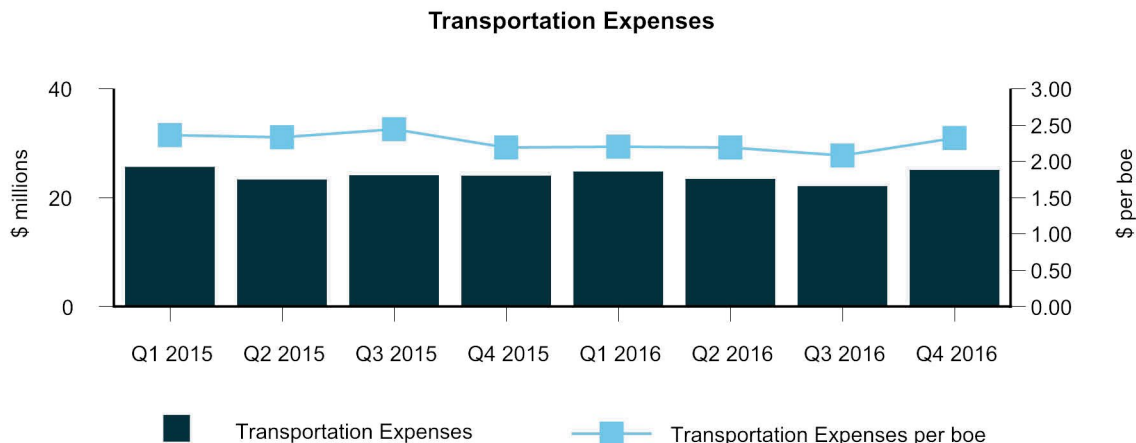
#### Exhibit 13



Transportation expenses increased \$0.13 per boe or six per cent to \$2.32 per boe during the fourth quarter of 2016 compared to \$2.19 per boe in the fourth quarter of 2015. On an absolute dollar basis, transportation costs have also increased by \$1.1 million or five per cent in the fourth quarter of 2016 as compared to the fourth quarter of 2015. The increase in transportation expenses is primarily due to an increase in trucking activity as a result of third-party pipeline outages during the fourth quarter of 2016.

For the year ended December 31, 2016, transportation expenses decreased by \$1.6 million or \$0.13 per boe compared to the prior year. Transportation per boe was six per cent lower for the year ended December 31, 2016 compared to the same period in 2015. The decrease in transportation expenses is a result of lower trucking activity at the Parkland/Tower area, which became pipeline-connected for its crude oil and liquids volumes over the course of 2015 and early 2016, as well as increased volumes for the year ended December 31, 2016 compared to the same period in the prior year.

## Exhibit 14



## G&A Expenses and Share-Based Compensation

Table 17 is a breakdown of G&A and share-based compensation expenses:

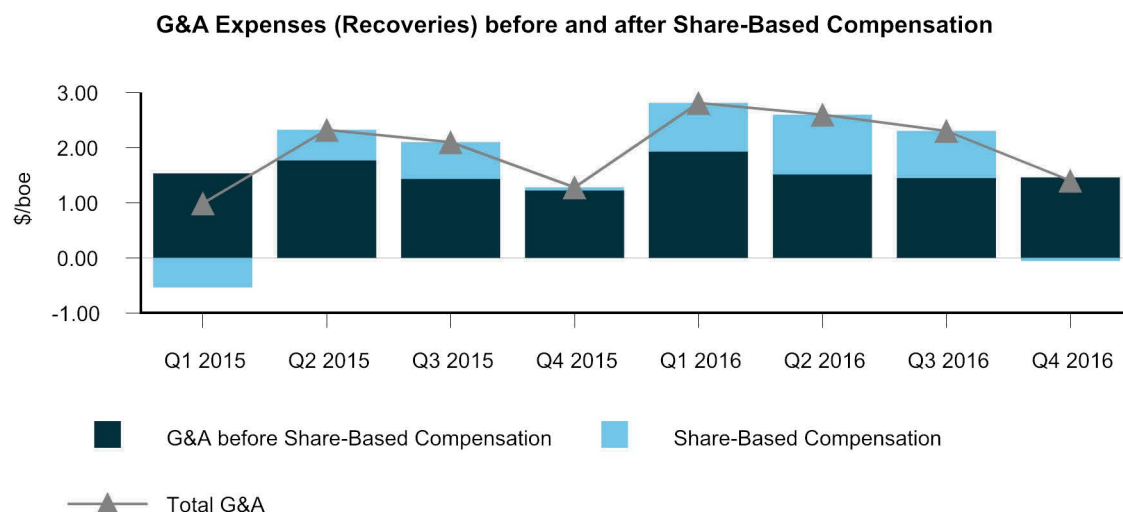
**Table 17**

	Three Months Ended December 31			Year Ended December 31		
<b>G&amp;A and Share-Based Compensation</b>						
(\$ millions, except per boe)	<b>2016</b>	2015	% Change	<b>2016</b>	2015	% Change
G&A expenses before share-based compensation expenses and recoveries <sup>(1)</sup>	<b>22.8</b>	23.1	(1)	<b>94.1</b>	98.5	(4)
Capitalized G&A and overhead recoveries	<b>(6.9)</b>	(9.7)	(29)	<b>(24.7)</b>	(36.8)	(33)
G&A expenses before share-based compensation expenses	<b>15.9</b>	13.4	19	<b>69.4</b>	61.7	12
G&A – share-based compensation expenses <sup>(2)</sup>	<b>(0.7)</b>	0.6	(217)	<b>29.9</b>	6.9	333
Total G&A	<b>15.2</b>	14.0	9	<b>99.3</b>	68.6	45
Total G&A per boe	<b>1.40</b>	1.28	9	<b>2.29</b>	1.65	39

(1) Includes expenses recognized under the DSU Plan.

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

## Exhibit 15



G&A expenses before share-based compensation expenses increased by 19 per cent to \$15.9 million in the fourth quarter of 2016 from \$13.4 million in the fourth quarter of 2015. For the year ended December 31, 2016, ARC's G&A expenses before share-based compensation expenses increased to \$69.4 million from \$61.7 million in the same period of 2015. While base G&A decreased with lower compensation expenses associated with a smaller workforce and reduced administrative spending, ARC decreased the amount of G&A attributed to capital spending as a result of reduced capital development activity in 2016.

### Share-Based Compensation Plans – Restricted Share Unit and Performance Share Unit Plan, Share Option Plan, Deferred Share Unit Plan, and Long-term Restricted Share Award 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 a G&A recovery of \$2.0 million during the fourth quarter of 2016 in accordance with the RSU and PSU Plan, as compared to a recovery of \$0.5 million during the fourth quarter of 2015. ARC recognized an increased recovery for the fourth quarter of 2016 as compared to the same period of the prior year primarily due to a further reduction of the valuation of its PSU awards at December 31, 2016 as ARC's total return performance decreased when compared with the total return performance of its peers.

For the year ended December 31, 2016, ARC recorded an expense related to the RSU and PSU Plan of \$24.4 million, an increase of \$21.8 million from year ended December 31, 2015. Compensation charges for the year ended December 31, 2016 as compared to the same period of the prior year increased due to the valuation of awards at December 31, 2016 as ARC's share price increased from \$16.70 per share outstanding at December 31, 2015 to \$23.11 per share at December 31, 2016. By comparison, in early 2015, a recovery was recognized in accordance with the RSU and PSU Plan due to negative pressure on ARC's share price.

During the year ended December 31, 2016, ARC made cash payments of \$25.8 million in respect of the RSU and PSU Plan (\$25.3 million for the year ended December 31, 2015). Of these payments, \$20.2 million were in respect of amounts

recorded to G&A expenses (\$19.5 million for the year ended December 31, 2015) and \$5.6 million were in respect of amounts recorded to operating expenses and capitalized as PP&E and E&E assets (\$5.8 million for the year ended December 31, 2015). These amounts were accrued in prior periods.

Table 18 shows the changes to the RSU and PSU Plan during 2016:

**Table 18**

RSU and PSU Plan (number of units, thousands)	RSUs	PSUs <sup>(1)</sup>	Total RSUs and PSUs
Balance, December 31, 2015	730	1,577	2,307
Granted	387	676	1,063
Distributed	(297)	(454)	(751)
Forfeited	(130)	(91)	(221)
Balance, December 31, 2016	<b>690</b>	<b>1,708</b>	<b>2,398</b>

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

The liability associated with the RSUs and PSUs granted is recognized in the consolidated statements of income (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 \$16.4 million and \$98.6 million will be paid out in 2017 through 2019 based on the current share price, accrued dividends, and ARC's market performance relative to its peers. Table 19 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, 2016:

**Table 19**

Value of RSU and PSU Plan as at December 31, 2016 (units thousands and \$ millions, except per share)	Performance multiplier		
	—	1.0	2.0
Estimated units to vest			
RSUs	710	710	710
PSUs	—	1,778	3,556
Total units <sup>(1)</sup>	<b>710</b>	<b>2,488</b>	<b>4,266</b>
Share price <sup>(2)</sup>	23.11	23.11	23.11
Value of RSU and PSU Plan upon vesting	<b>16.4</b>	<b>57.5</b>	<b>98.6</b>
2017	7.8	18.4	29.0
2018	5.8	20.6	35.4
2019	2.8	18.5	34.2

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

(2) Per share outstanding. Values will fluctuate over the vesting period based on the volatility of the underlying share price. Assumes a future share price of \$23.11, which is based on the closing share price at December 31, 2016.

### Share Option Plan

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

At December 31, 2016, ARC had four million share options outstanding under this plan, representing 1.1 per cent of outstanding shares, with a weighted average exercise price of \$21.22 per share. At December 31, 2016, approximately 0.7 million share options were exercisable with a weighted average exercise price of \$17.77 per share. Compensation expense related to share options of \$1.2 million has been recorded during the fourth quarter of 2016 (\$4.4 million for the year ended December 31, 2016) compared to \$0.9 million for the fourth quarter of 2015 (\$3.4 million for the year ended December 31, 2015) 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 months and year ended December 31, 2016, G&A expenses of \$0.2 million and \$4.2 million, respectively, were recorded in relation to the DSU Plan (G&A expense of \$0.1 million and recovery of \$0.3 million for the same periods in 2015, respectively).

## Long-term Restricted Share Award Plan

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

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

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

At December 31, 2016, ARC had 0.2 million restricted shares outstanding under this plan. ARC recorded G&A expenses of \$0.1 million and \$1.1 million relating to the LTRSA Plan during the three months and year ended December 31, 2016 (\$0.2 million and \$0.9 million for the three months and year ended December 31, 2015), respectively.

## Interest and Financing Charges

Interest and financing charges decreased five per cent to \$12.6 million in the fourth quarter of 2016 from \$13.3 million in the fourth quarter of 2015. For the year ended December 31, 2016, interest and financing charges were \$50.5 million as compared to \$51.0 million for the same period in 2015, a decrease of one per cent.

At December 31, 2016, ARC had \$1.0 billion of long-term debt outstanding, including a current portion of \$51.5 million that is due for repayment within the next 12 months. ARC's debt balance is fixed at a weighted average interest rate of 4.35 per cent. 96 per cent (US\$734.4 million) of ARC's debt outstanding is denominated in US dollars.

## Foreign Exchange Gains and Losses

ARC recorded a foreign exchange loss of \$23.3 million in the fourth quarter of 2016 compared to a loss of \$33.9 million in the fourth quarter of 2015. During the three months ended December 31, 2015, the value of the US dollar relative to the Canadian dollar increased to \$1.38 at December 31, 2015 from \$1.34 at September 30, 2015, resulting in an unrealized loss on the revaluation of ARC's US dollar denominated debt. For the three months ended December 31, 2016, the value of the US dollar relative to the Canadian dollar increased to \$1.34 at December 31, 2016 from \$1.31 at September 30, 2016.

For the year ended December 31, 2016, ARC recorded a foreign exchange gain of \$33.3 million compared to a loss of \$177.8 million for the same period in the prior year. During the year ended December 31, 2015, the value of the US dollar relative to the Canadian dollar increased to \$1.38 at December 31, 2015 from \$1.16 at December 31, 2014, resulting in an unrealized loss on the revaluation of ARC's US dollar denominated debt. During the year ended December 31, 2016, the value of the US dollar relative to the Canadian dollar decreased to \$1.34 at December 31, 2016 from \$1.38 at December 31, 2015, resulting in an unrealized gain on the revaluation of ARC's US dollar denominated debt. The majority of the losses for both the three months and years ended December 31, 2016 and 2015 are unrealized.

Table 20 shows the various components of foreign exchange gains and losses:

**Table 20**

	Three Months Ended			Year Ended		
	December 31			December 31		
<b>Foreign Exchange Gains and Losses</b> (\$ millions)	<b>2016</b>	2015	% Change	<b>2016</b>	2015	% Change
Unrealized gain (loss) on US denominated debt	(23.1)	(34.9)	(34)	34.5	(178.5)	(119)
Realized gain (loss) on US denominated transactions	(0.2)	1.0	(120)	(1.2)	0.7	(271)
Total foreign exchange gain (loss)	(23.3)	(33.9)	(31)	33.3	(177.8)	(119)

## Taxes

ARC recorded a current income tax expense of \$24.4 million in the fourth quarter of 2016 (\$25.4 million expense for the year ended December 31, 2016), compared to a recovery of \$3.0 million during the fourth quarter of 2015 (\$9.0 million recovery for the year ended December 31, 2015). The increase in current tax expense for the three months and year ended December 31, 2016 as compared to the same periods in 2015 reflects the loss of income tax pools related to the divestment of ARC's Saskatchewan assets at the end of 2016, as well as a recovery in commodity prices since the beginning of 2016, resulting in higher overall taxable income.

During the fourth quarter of 2016, a deferred income tax expense of \$43.5 million was recorded compared to a deferred income tax expense of \$3.2 million in the fourth quarter of 2015. The increase in the deferred tax expense in the fourth quarter of 2016 is due to impairment recoveries recognized on divested assets, as well as an overall decrease in ARO, while in the fourth quarter of 2015 ARC recorded impairment charges on its assets.

During the year ended December 31, 2016, a deferred income tax expense of \$16.0 million was recorded compared to a \$6.8 million deferred income tax recovery for the year ended December 31, 2015. ARC recorded a deferred income tax recovery in 2015 as a result of impairment charges recorded on its assets, while ARC recorded a deferred income tax expense in 2016 relating to timing differences within PP&E driven by impairment recoveries, asset dispositions, and business combinations.

The income tax pools (detailed in Table 21) are deductible at various rates and annual deductions associated with the initial tax pools will decline over time.

**Table 21**

<b>Income Tax Pool Type</b> (\$ millions)	<b>December 31, 2016</b>	<b>Annual Deductibility</b>
Canadian oil and gas property expense	175.2	10% declining balance
Canadian development expense	738.1	30% declining balance
Canadian exploration expense	—	100%
Undepreciated capital cost	722.2	Primarily 25% declining balance
Other	15.1	Various rates, 7% declining balance to 20%
Total federal tax pools	1,650.6	
Additional Alberta tax pools	6.5	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 crude 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 months and year ended December 31, 2016, ARC recorded DD&A expense of \$115.7 million and \$499.8 million as compared to \$131.7 million and \$595.8 million for the three months and year ended December 31, 2015, respectively. The decrease in DD&A per boe before impairment for the three months and year ended December 31, 2016 reflects the effect of a lower depletable base as result of reduced costs of finding and development of reserves and non-core asset dispositions throughout 2016 having a higher than average DD&A rate.

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

For the three months and year ended December 31, 2016, net impairment reversals of \$68.4 million and \$68.3 million, respectively, were recognized as a result of the disposition of ARC's non-core Saskatchewan assets and certain non-core properties in Alberta. For the three months and year ended December 31, 2015, impairment charges of \$131.3 million and \$469.6 million were recognized, respectively.

A breakdown of DD&A expense and impairment charges is summarized in Table 22:

**Table 22**

	Three Months Ended December 31			Year Ended December 31		
<b>DD&amp;A Expense and Impairment Charges</b> (\$ millions, except per boe amounts)	<b>2016</b>	2015	% Change	<b>2016</b>	2015	% Change
Depletion of crude oil and natural gas assets	<b>114.4</b>	130.3	(12)	<b>494.4</b>	589.7	(16)
Depreciation of administrative assets	<b>1.3</b>	1.4	(7)	<b>5.4</b>	6.1	(11)
Impairment charges (reversals)	<b>(68.4)</b>	131.3	(152)	<b>(68.3)</b>	469.6	(115)
Total DD&A expense and impairment charges	<b>47.3</b>	263.0	(82)	<b>431.5</b>	1,065.4	(59)
DD&A per boe before impairment	<b>10.69</b>	12.01	(11)	<b>11.51</b>	14.30	(20)

### Capital Expenditures, Acquisitions and Dispositions

Capital expenditures before acquisitions, dispositions or purchases of undeveloped land totaled \$159.2 million in the fourth quarter of 2016 as compared to \$149.5 million during the fourth quarter of 2015. This total includes development and production additions to PP&E of \$148.0 million and additions to E&E assets of \$11.2 million. PP&E expenditures include additions to crude oil and natural 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 23:

**Table 23**

	Three Months Ended December 31						
	2016			2015			
<b>Capital Expenditures</b> (\$ millions)	<b>E&amp;E</b>	<b>PP&amp;E</b>	<b>Total</b>	<b>E&amp;E</b>	<b>PP&amp;E</b>	<b>Total</b>	<b>% Change</b>
Geological and geophysical	<b>0.1</b>	<b>1.7</b>	<b>1.8</b>	0.2	2.3	2.5	(28)
Drilling and completions	<b>10.5</b>	<b>78.6</b>	<b>89.1</b>	11.1	97.4	108.5	(18)
Plant and facilities	<b>0.6</b>	<b>65.3</b>	<b>65.9</b>	0.8	36.5	37.3	77
Administrative assets	<b>—</b>	<b>2.4</b>	<b>2.4</b>	—	1.2	1.2	100
Total capital expenditures	<b>11.2</b>	<b>148.0</b>	<b>159.2</b>	12.1	137.4	149.5	6
Undeveloped land	<b>0.3</b>	<b>2.4</b>	<b>2.7</b>	1.5	3.1	4.6	(41)
Total capital expenditures including undeveloped land purchases	<b>11.5</b>	<b>150.4</b>	<b>161.9</b>	13.6	140.5	154.1	5
Acquisitions <sup>(1)</sup>	<b>—</b>	<b>14.6</b>	<b>14.6</b>	—	0.3	0.3	100
Dispositions <sup>(2)</sup>	<b>—</b>	<b>(702.1)</b>	<b>(702.1)</b>	—	(42.2)	(42.2)	100
Total capital expenditures, land purchases and net acquisitions and dispositions	<b>11.5</b>	<b>(537.1)</b>	<b>(525.6)</b>	13.6	98.6	112.2	(568)

(1) Excludes \$0.9 million and \$nil of non-cash petroleum and natural gas property transactions in the fourth quarters of 2016 and 2015, respectively.

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

For the year ended December 31, 2016, capital expenditures before property acquisitions, dispositions or purchases of undeveloped land totaled \$453.4 million as compared to \$541.6 million during the same period of 2015. This total includes development and production additions to PP&E of \$415.7 million and additions to E&E assets of \$37.7 million.

**Table 23a**

Year Ended December 31							
Capital Expenditures (\$ millions)	2016			2015			% Change
	E&E	PP&E	Total	E&E	PP&E	Total	
Geological and geophysical	0.6	11.8	12.4	5.3	10.6	15.9	(22)
Drilling and completions	27.1	199.9	227.0	26.0	335.2	361.2	(37)
Plant and facilities	10.0	200.6	210.6	1.1	160.9	162.0	30
Administrative assets	—	3.4	3.4	—	2.5	2.5	36
Total capital expenditures	37.7	415.7	453.4	32.4	509.2	541.6	(16)
Undeveloped land	0.3	2.4	2.7	1.5	5.2	6.7	(60)
Total capital expenditures including undeveloped land purchases	38.0	418.1	456.1	33.9	514.4	548.3	(17)
Acquisitions <sup>(1)</sup>	—	172.9	172.9	14.1	0.3	14.4	100
Dispositions <sup>(2)</sup>	—	(705.4)	(705.4)	(7.6)	(81.2)	(88.8)	694
Total capital expenditures, land purchases and net acquisitions and dispositions	38.0	(114.4)	(76.4)	40.4	433.5	473.9	(116)

(1) Excludes \$0.9 million and \$29.6 million of non-cash petroleum and natural gas property transactions in the years ended December 31, 2016 and 2015, respectively.

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

During the year ended December 31, 2016, ARC closed the acquisitions of certain properties producing approximately 3,100 boe per day of mainly light, sweet crude oil in the Pembina area of Alberta for total cash consideration of \$143.6 million, subject to final adjustments. The major assets acquired consisted of additional working interest in properties where ARC already held a significant interest. The transactions were recorded as business combinations under IFRS. Refer to Note 9 "Business Combinations" in the financial statements.

During year ended December 31, 2016, ARC divested of certain non-core assets located in Alberta and Saskatchewan. In aggregate, the divested properties had associated production volumes of approximately 8,800 boe per day, which resulted in an annual impact of approximately 900 boe per day (approximately 88% per cent crude oil and liquids production at the time of divestments).

At the end of the fourth quarter of 2016, ARC classified \$242.3 million of certain non-core assets in Alberta as held for sale. The assets are expected to be divested in 2017.

#### Asset Retirement Obligations and Reclamation Fund

At December 31, 2016, ARC has recorded ARO of \$378.9 million (\$573.2 million at December 31, 2015) for the future abandonment and reclamation of ARC's properties. The estimated ARO includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred, as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at a liability-specific risk-free interest rate of 2.3 per cent (2.2 per cent at December 31, 2015).

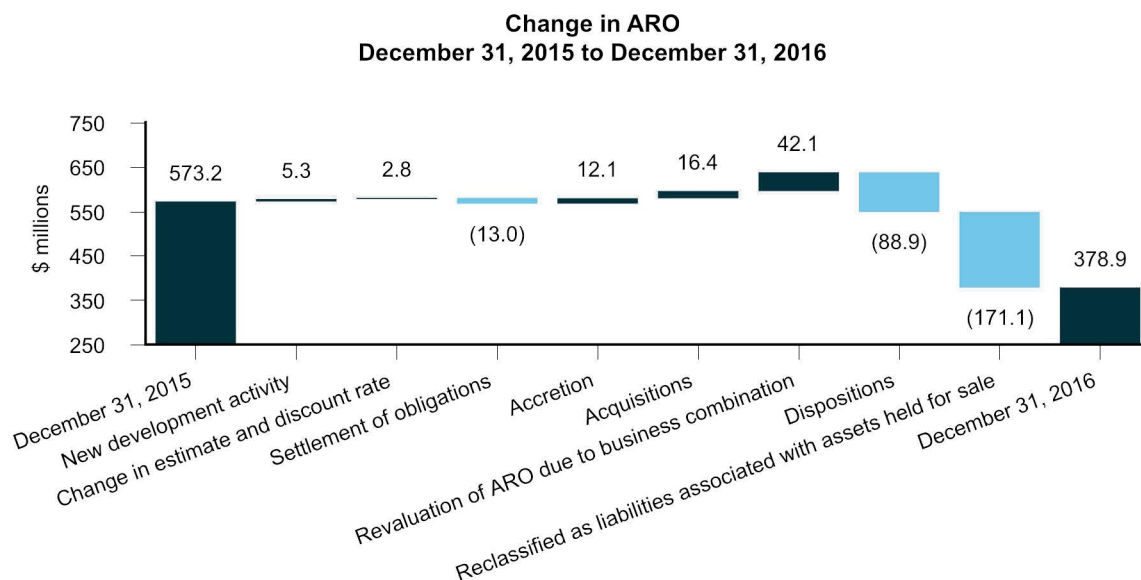
Accretion charges of \$3.0 million and \$12.1 million for the three months and year ended December 31, 2016 (\$3.3 million and \$13.4 million for the same periods in 2015), respectively, have been recognized in the statements of income to reflect the increase in ARO associated with the passage of time. Actual spending under ARC's abandonment and reclamation program for the three months and year ended December 31, 2016 was \$4.5 million and \$13.0 million (\$4.2 million and \$12.3 million for the same periods in 2015), respectively.

At the end of the third quarter of 2016, ARC recognized ARO of \$16.4 million associated with the acquisition of certain properties in the Pembina area of Alberta. The acquired obligations were recognized on the date of acquisition at fair value and then discounted at a liability-specific risk-free interest rate of 2.3 per cent at December 31, 2016. The ARO revaluation of \$42.1 million from the change in the discount rate was recorded as an increase to the liability, with a corresponding increase to the carrying amount of the related asset in PP&E.

During the three months and year ended December 31, 2016, \$78.5 million and \$88.9 million of ARO was disposed, primarily related to the divestment of ARC's non-core Saskatchewan assets in the fourth quarter of 2016. At the end of the fourth quarter of 2016, ARC classified \$171.1 million of ARO associated with certain non-core assets in Alberta as held for sale.

Environmental stewardship is a core value at ARC and abandonment and reclamation activities continue to be made in a prudent, responsible manner with the oversight of the Health, Safety and Environment Committee of the Board. Ongoing abandonment expenditures for all of ARC's assets are funded entirely out of cash flow from operating activities. ARC's Liability Management Rating is well within the Alberta Energy Regulator's guidelines at this date.

#### Exhibit 16



#### Capitalization, Financial Resources and Liquidity

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

ARC typically uses three markets to raise capital: equity, bank debt and long-term notes. Long-term notes are issued to large institutional investors normally with an average term of five to 12 years. The cost of this debt is based upon two factors: the current rate of long-term government bonds and ARC's credit spread. ARC's weighted average interest rate on its outstanding long-term notes is currently 4.35 per cent.

A breakdown of ARC's capital structure as at December 31, 2016 and December 31, 2015 is outlined in Table 24:

**Table 24**

<b>Capital Structure and Liquidity</b> (\$ millions, except per cent and ratio amounts)	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Long-term debt <sup>(1)</sup>	<b>1,026.0</b>	1,114.3
Working capital surplus <sup>(2)</sup>	<b>(669.5)</b>	(129.2)
Net debt	<b>356.5</b>	985.1
Market capitalization <sup>(3)</sup>	<b>8,164.8</b>	5,796.6
Total capitalization	<b>8,521.3</b>	6,781.7
Net debt as a percentage of total capitalization (%)	<b>4.2</b>	14.5
Net debt to funds from operations (ratio)	<b>0.6</b>	1.3

(1) Includes a current portion of long-term debt of \$51.5 million at December 31, 2016 and \$57.9 million at December 31, 2015.

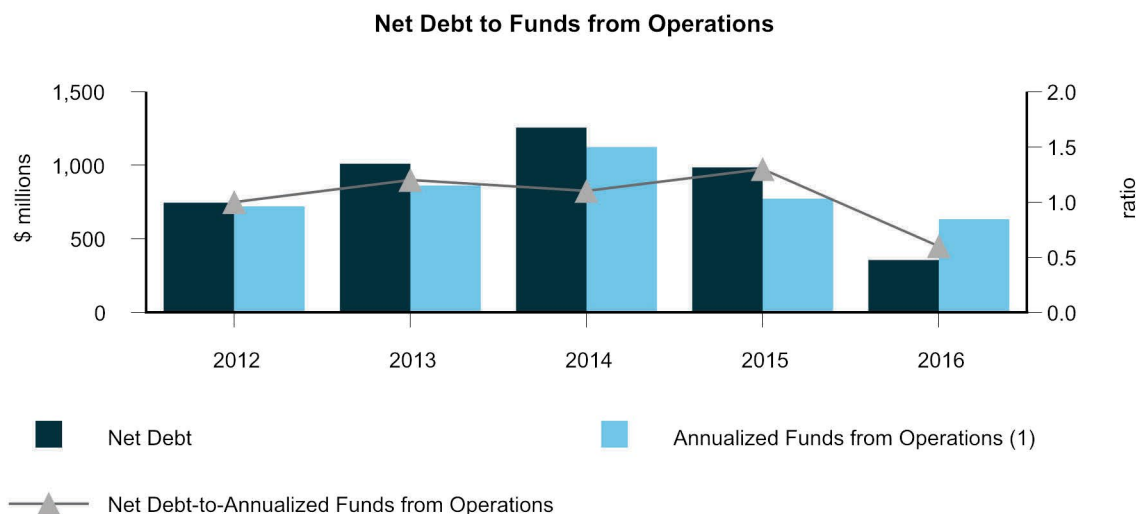
(2) Working capital surplus or deficit is calculated as current assets less current liabilities as they appear on the consolidated balance sheets (the "balance sheets"), and excludes current unrealized amounts pertaining to risk management contracts, assets held for sale and ARO contained within liabilities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

(3) Calculated using the total common shares outstanding at December 31, 2016 multiplied by the closing share price of \$23.11 at December 31, 2016 (closing share price of \$16.70 at December 31, 2015).

Management's long-term strategy is to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. This strategy has resulted in manageable debt levels to date and has positioned ARC to remain well within its debt covenants. Refer to Note 15 "Capital Management" in the financial statements.

ARC closed the quarter with a strong balance sheet with only \$356.5 million of net debt outstanding, which was approximately four per cent of ARC's total capitalization. At December 31, 2016, ARC's net debt to 2016 funds from operations ratio was 0.6 times as ARC received proceeds from dispositions completed in the fourth quarter of 2016. The proceeds from the dispositions are currently held in short-term investment-grade assets. Over time, ARC expects its net debt to funds from operations ratio to return to the target levels of between one to 1.5 times annualized funds from operations as the proceeds will be reinvested to fund profitable capital development in ARC's core areas.

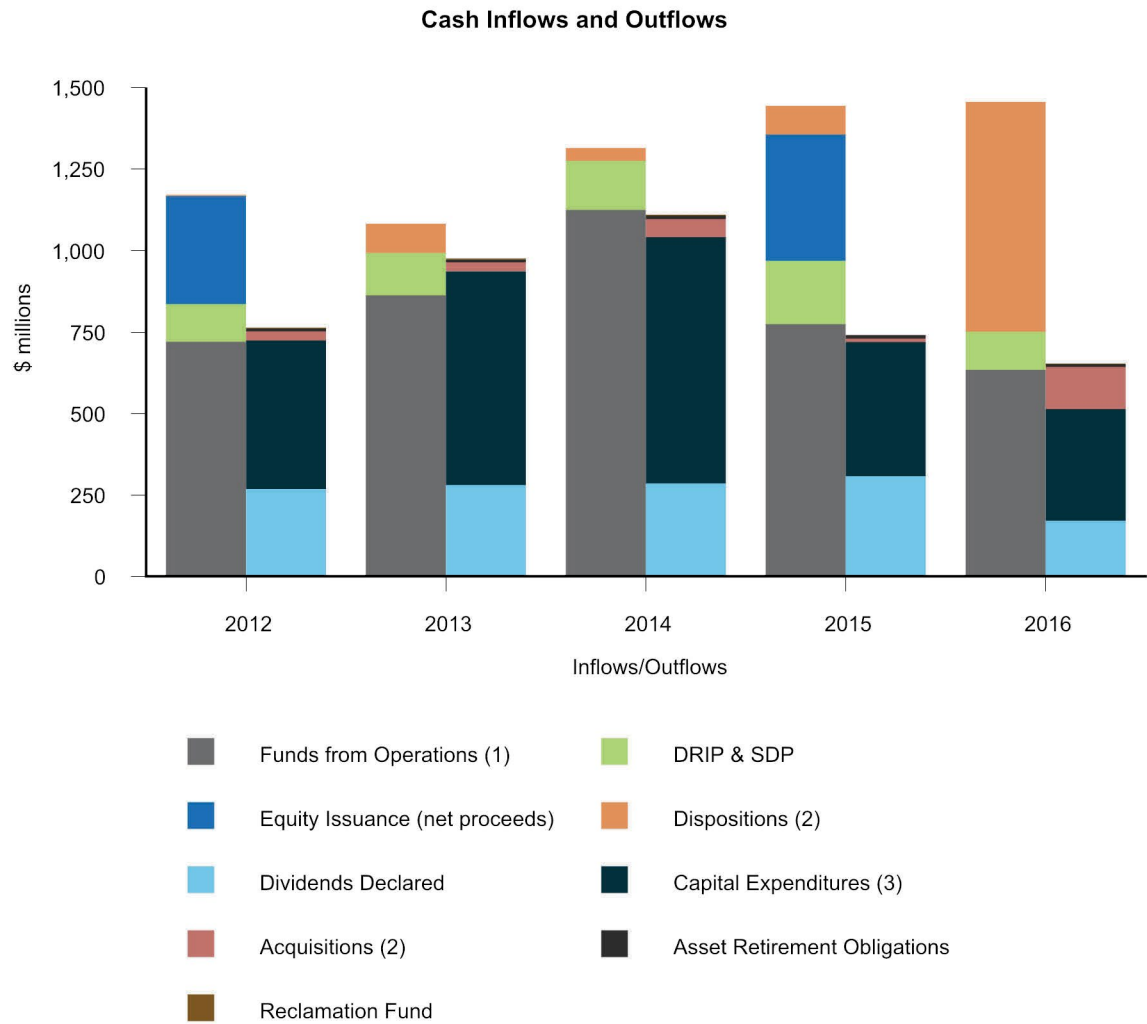
**Exhibit 17**



(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

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

Exhibit 18





**Table 25**

(\$ millions)	2016	2015	2014	2013	2012
<b>Cash Inflows</b>					
Funds from operations <sup>(1)</sup>	633.3	773.4	1,124.0	861.8	719.8
DRIP & SDP	117.1	195.5	151.0	130.1	116.3
Equity issuance (net proceeds)	—	386.1	—	—	330.7
Dispositions <sup>(2)</sup>	705.4	88.8	39.3	89.8	4.1
<b>Total</b>	<b>1,455.8</b>	<b>1,443.8</b>	<b>1,314.3</b>	<b>1,081.7</b>	<b>1,170.9</b>
<b>Cash Outflows</b>					
Dividends declared	228.2	410.5	380.2	374.0	357.4
Capital expenditures <sup>(3)</sup>	455.6	547.9	1,007.6	874.2	607.7
Acquisitions <sup>(2)</sup>	172.9	14.4	73.5	36.4	36.5
Asset retirement obligations	13.0	12.3	23.0	18.5	11.9
Reclamation fund contributions (withdrawals)	2.0	(0.9)	2.6	2.8	2.8
<b>Total</b>	<b>856.7</b>	<b>972.8</b>	<b>1,461.3</b>	<b>1,284.6</b>	<b>1,001.6</b>

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

(2) Excludes non-cash property transactions.

(3) Excludes capital expenditures attributable to non-cash share options and asset retirement expenditures.

At December 31, 2016, ARC had total available credit facilities of approximately \$2.2 billion with debt of \$1.0 billion currently outstanding. ARC's long-term debt balance includes a current portion of \$51.5 million at December 31, 2016 (\$57.9 million at December 31, 2015), reflecting principal payments that are due to be paid within the next 12 months. ARC intends to finance these obligations by using cash on hand or drawing on its syndicated credit facility at the time the payments are due.

ARC's low debt level allows for greater certainty around the availability of the funding necessary to execute on its long-term business plans. As a result, ARC believes that issuing equity through the DRIP and SDP is no longer necessary to fund future growth initiatives identified in its long-term strategy. On February 8, 2017, ARC's Board of Directors approved the elimination of the DRIP and SDP. By eliminating these programs, ARC will be able to maximize shareholder value over the long term and eliminate the dilutive effect of the DRIP and SDP to ARC's existing shareholder base. Based on the low participation in the DRIP and SDP, elimination of the DRIP and SDP is not expected to have a material impact on cash flows. Elimination of the DRIP and SDP will be effective for the March dividend which is expected to be paid on April 17, 2017 to shareholders of record on March 31, 2017. The ex-dividend date is March 29, 2017. Shareholders that were enrolled in either the DRIP or SDP will now automatically receive dividend payments in the form of cash.

ARC's debt agreements contain a number of covenants, all of which were met as at December 31, 2016. These agreements are available at [www.sedar.com](http://www.sedar.com). ARC calculates its covenants four times annually. The major financial covenants of the syndicated credit facility are described below:

**Table 26**

Covenant Description	Estimated Position at December 31, 2016 <sup>(1)</sup>
Long-term debt and letters of credit not to exceed three and a quarter times trailing 12 month net income before non-cash items, income taxes and interest expense	1.6
Long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12 month net income before non-cash items, income taxes and interest expense	1.6
Long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit and subordinated debt	20%

(1) Estimated position, subject to final approval.

## Shareholders' Equity

At December 31, 2016, there were 353.3 million shares outstanding, an increase of 6.2 million shares compared to December 31, 2015. The 6.2 million shares issued during the year are primarily attributable to those issued to participants in the DRIP and SDP.

At December 31, 2016, ARC had four million share options outstanding under its Share Option Plan, representing 1.1 per cent of outstanding shares, with a weighted average exercise price of \$21.22 per share. These options vest in equal parts on the fourth and fifth anniversaries of the grant date. At December 31, 2016, approximately 0.7 million share options were exercisable with a weighted average exercise price of \$17.77 per share. For more information on the Share Option Plan, refer to the section entitled "Share Option Plan" contained within this MD&A.

At December 31, 2016, ARC had 0.2 million restricted shares outstanding under its LTRSA Plan. These awards vest evenly on the eighth, ninth and tenth anniversaries of the grant date. For more information on the restricted shares outstanding and held in trust under ARC's LTRSA Plan, refer to the section entitled "Long-term Restricted Share Award Plan" contained within this MD&A.

## Dividends

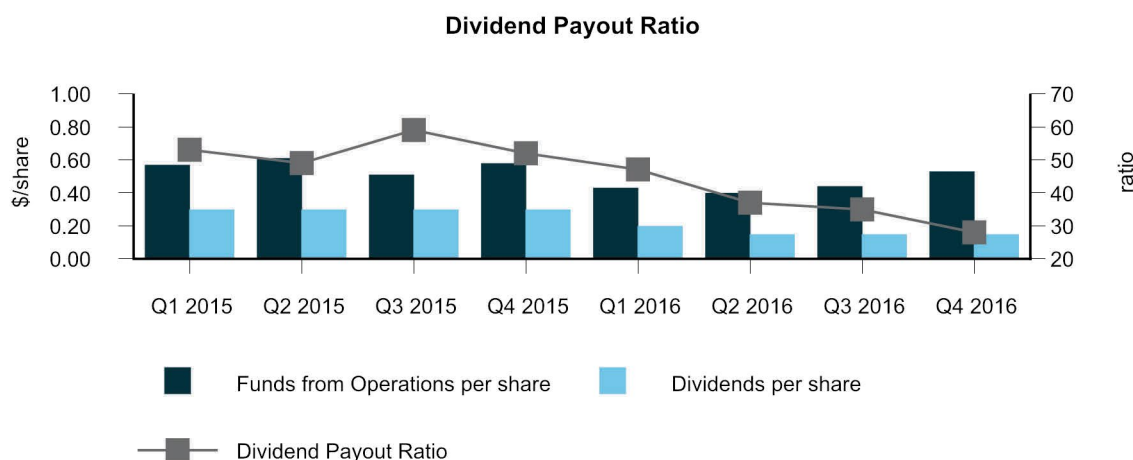
In the fourth quarter of 2016, ARC declared dividends totaling \$52.9 million (\$0.15 per share outstanding) compared to \$103.8 million (\$0.30 per share outstanding) during the fourth quarter of 2015. ARC reduced its monthly dividend to \$0.05 per share outstanding commencing with the February 2016 dividend payable March 15, 2016.

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

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

ARC is focused on value creation and long-term returns to shareholders, with the dividend being a key component of its business strategy. As a result of the reduction of the monthly dividend to \$0.05 per share outstanding, ARC's dividend as a percent of funds from operations has decreased from an average of 52 per cent in the fourth quarter of 2015 to an average of 28 per cent in the fourth quarter of 2016. ARC believes that it is currently positioned to sustain current dividend levels despite the volatile commodity price environment.

## Exhibit 19



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, 2017, ARC confirmed that a dividend of \$0.05 per common share designated as an eligible dividend will be paid on February 15, 2017 to shareholders of record on January 31, 2017 with an ex-dividend date of January 27, 2017. The elimination of the DRIP and SDP will apply to the April 17, 2017 dividend payment to shareholders of record on March 31, 2017. The ex-dividend date is March 29, 2017.

Please refer to ARC's website at [www.arcresources.com](http://www.arcresources.com) for details of the estimated monthly dividend amounts and dividend dates for 2017.

### Environmental Initiatives Impacting ARC

In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, the phase-out of coal-fired power generation by 2030, a cap on oil sands emissions production of 100 megatonnes, and a 45 per cent reduction in methane emissions by the crude oil and natural gas sector by 2025. The provincial government of Alberta included the proposed carbon pricing measures in the release of its 2016 budget in the second quarter of 2016. ARC expects the Climate Leadership Plan to increase the cost of operating its properties located in Alberta.

In the third quarter of 2016, the Government of Canada announced its proposed plan for all Canadian jurisdictions to impose a price on carbon pollution, beginning at a minimum of \$10 per tonne in 2018 and rising by \$10 per tonne each year to \$50 per tonne in 2022. Provinces and territories have the option to put a direct price on carbon pollution or adopt a cap-and-trade system that meets or exceeds the federal benchmark. If provinces and territories fail to implement a price or cap-and-trade plan by 2018, the Government of Canada will implement a price in that jurisdiction.

ARC will continue to monitor developments in the federal minimum carbon tax plan and will evaluate the expected impact of this plan on its results of operations.

### Contractual Obligations and Commitments

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2016:

**Table 27**

(\$ millions)	Payments Due by Period				Total
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	
Debt repayments <sup>(1)</sup>	51.5	158.4	308.7	507.4	1,026.0
Interest payments <sup>(2)</sup>	43.9	76.3	57.6	44.2	222.0
Reclamation fund contributions <sup>(3)</sup>	3.1	6.0	5.5	42.9	57.5
Purchase commitments	11.1	7.8	0.5	—	19.4
Transportation commitments	84.6	141.3	118.9	308.9	653.7
Operating leases	15.7	28.9	27.3	30.8	102.7
Risk management contract premiums <sup>(4)</sup>	6.4	0.6	—	—	7.0
<b>Total contractual obligations and commitments</b>	<b>216.3</b>	<b>419.3</b>	<b>518.5</b>	<b>934.2</b>	<b>2,088.3</b>

(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 16). As the premiums are related to the underlying risk management contract, they have been recorded at fair market value at December 31, 2016 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 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 27 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 27), 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, 2016.

### Related Parties

#### Key Management Personnel Compensation

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

**Table 28**

(\$ millions)	Year Ended December 31, 2016	Year Ended December 31, 2015
Short-term benefits	6.8	7.2
Share-based compensation	20.5	1.6
Total key management personnel compensation	27.3	8.8

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

ARC has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent

in the financial statements, refer to Note 5 “Management Judgments and Estimation Uncertainty” in the financial statements.

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

## **ASSESSMENT OF BUSINESS RISKS**

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

### **Volatility of Oil and Natural Gas Prices**

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

### **Refinancing and Debt Service**

ARC currently has a \$950.0 million financial covenant-based syndicated credit facility with 11 banks. At the request of ARC, the lenders will review the credit facility each year and determine if they will extend for another year. In the event that the facility is not extended before November 6, 2020, 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 \$1,026.0 million of long-term, fixed interest rate debt outstanding which requires principal repayments in 2016 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 matters relating to ARC's assets. Any deterioration of ARC's corporate culture could adversely affect ARC's long-term success.

### **Operational Matters**

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

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

### **Reserves and Resources Estimates**

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

### **Depletion of Reserves and Maintenance of Dividend**

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

### **Counterparty Risk**

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



participants. A diversified sales customer base is maintained and exposure to individual entities is reviewed on a regular basis.

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

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

### **Changes in Income Tax Legislation**

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

### **Changes in Government Royalty Legislation**

Provincial programs related to the crude oil and natural gas industry may change in a manner that adversely impacts shareholders. ARC currently operates in British Columbia, Alberta and Saskatchewan, 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.

In 2016, the provincial government of Alberta announced the key highlights of a proposed Modernized Royalty Framework ("MRF") that came into effect on January 1, 2017. The MRF is discussed in this MD&A under the heading "Royalties." The changes are not expected to have a material impact on ARC's results of operations and ARC will evaluate the impact of the MRF on the Company's expected results of operations and cash flows as more details are released.

### **Environmental Concerns and Changes in Environmental Legislation**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of ARC or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to ARC. 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.

In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. The Climate Leadership Plan is discussed in this MD&A under the heading "Environmental Initiatives Impacting ARC."

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 its operations in a safe, responsible and transparent manner in the communities in which its people live and work.

### **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.

### **Information Technology Systems**

ARC utilizes a number of information technology systems for the administration and management of its business. If ARC's ability to access and use these systems is interrupted and cannot be quickly and easily restored then such event could have a material adverse effect on the Company. Furthermore, although ARC's information technology systems are considered to be secure, if an unauthorized third party is able to access the systems then such unauthorized access may compromise ARC's business in a materially adverse manner.

## **PROJECT RISKS**

ARC manages a variety of small and large projects and plans to continue with the development of several capital projects throughout 2017. Project delays may impact expected revenues from operations. Significant project cost overruns could make a project uneconomic. ARC's ability to execute projects and market crude oil and natural gas depends upon numerous factors beyond its control, including:

- availability of processing capacity;
- availability and proximity of pipeline capacity;
- availability of storage capacity;
- supply of and demand for crude oil and natural gas;
- availability of alternative fuel sources;
- effects of inclement weather;
- availability of drilling, related equipment and resources;
- unexpected cost increases;
- accidental events;
- changes in regulations; and
- availability and productivity of skilled labour.

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

## **CONTROL ENVIRONMENT**

### **Disclosure Controls and Procedures**

As of December 31, 2016, 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, 2016. The effectiveness of ARC's internal control over financial reporting as of December 31, 2016 has been audited by Deloitte LLP, as reflected in their report for 2016. No changes were made to ARC's internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

## **FINANCIAL REPORTING UPDATE**

### **Future Accounting Policy Changes**

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by ARC on January 1, 2018. The Company has created a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income, unless this creates an accounting mismatch. The Company anticipates that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. ARC does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by ARC on January 1, 2018.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by ARC on January 1, 2019 and the Company is currently evaluating the impact of the standard on ARC's financial statements.

## Non-GAAP Measures

Throughout this MD&A, the company uses the term operating netback ("netback") to analyze operating performance. This non-GAAP measure does not have any standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities. ARC discloses netback both prior to realized hedging gains or losses and after the impacts of hedging are included. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period and disclosing this impact provides Management and investors with transparent measures that reflect how ARC's risk management program can impact netback metrics. Management feels that netback is a key industry benchmark and a measure of performance for ARC that provides investors with information that is commonly used by other crude oil and natural gas companies. This measurement assists Management and investors in evaluating operating results on a per boe basis to better analyze performance on a comparable basis. Netback is disclosed in Table 16 within this MD&A.

## 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 2017 under the heading "Annual Guidance and Financial Highlights," ARC's risk management plans for 2017 and beyond under the heading "Risk Management," ARC's view on the impact of the government of Alberta's recently announced Modernized Royalty Framework ("MRF") on ARC's results of operations under the heading "Royalties," ARC's view as to the estimated future payments under the RSU and PSU Plan under the heading "Share-Based Compensation Plans – Restricted Share Unit and Performance Share Unit Plan, Share Option Plan, Deferred Share Unit Plan, and Long-term Restricted Share Award Plan," the financing information relating to raising capital under the heading "Capitalization, Financial Resources and Liquidity," ARC's plans in relation to future dividend levels under the heading "Dividends," ARC's estimates of normal course obligations under the heading "Contractual Obligations and Commitments," and a number of other matters, including the amount of future asset retirement obligations, future liquidity and financial capacity, future results from operations and operating metrics, future costs, expenses and royalty rates, future interest costs, and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this MD&A reflect 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 funds from operations to fund its planned expenditures. ARC believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of ARC's products; 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 crude oil and natural gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in ARC's public disclosure documents (including, without limitation, those risks identified in this MD&A and in ARC's AIF).

The 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)					
	2016	2015	2014	2013	2012
<b>FINANCIAL</b>					
Sales of crude oil, natural gas, condensate, NGLs and other income	1,063.5	1,193.7	2,107.7	1,624.3	1,389.4
Per share, basic	3.03	3.51	6.66	5.21	4.67
Per share, diluted	3.03	3.51	6.64	5.21	4.67
Net income (loss)	201.3	(342.7)	380.8	240.7	139.2
Per share, basic	0.57	(1.01)	1.20	0.77	0.47
Per share, diluted	0.57	(1.01)	1.20	0.77	0.47
Funds from operations <sup>(1)</sup>	633.3	773.4	1,124.0	861.8	719.8
Per share, basic	1.80	2.27	3.55	2.77	2.42
Per share, diluted	1.80	2.27	3.54	2.76	2.42
Dividends declared	228.2	410.5	380.2	374.0	357.4
Per share <sup>(2)</sup>	0.65	1.20	1.20	1.20	1.20
Total assets	5,990.5	5,932.2	6,325.5	5,736.0	5,627.1
Total liabilities	2,505.7	2,543.7	2,773.7	2,339.9	2,230.4
Net debt outstanding <sup>(3)</sup>	356.5	985.1	1,255.9	1,011.5	745.6
Weighted average shares	350.9	340.5	316.6	311.5	297.2
Weighted average shares, diluted	351.3	340.5	317.2	311.9	297.2
Shares outstanding, end of period	353.3	347.1	319.4	314.1	308.9
<b>CAPITAL EXPENDITURES</b>					
Geological and geophysical	12.4	15.9	17.6	19.2	31.8
Drilling and completions	227.0	361.2	660.0	568.4	429.8
Plant and facilities	210.6	162.0	261.4	267.7	131.6
Other	3.4	2.5	6.5	4.6	5.3
Total capital expenditures	453.4	541.6	945.5	859.9	598.5
Undeveloped land purchased at Crown land sales	2.7	6.7	62.3	14.3	9.5
Total capital expenditures including undeveloped land purchases	456.1	548.3	1,007.8	874.2	608.0
Acquisitions	172.9	14.4	73.5	36.4	36.5
Dispositions	(705.4)	(88.8)	(39.3)	(89.8)	(4.1)
Total capital expenditures and net acquisitions	(76.4)	473.9	1,042.0	820.8	640.4
<b>OPERATING</b>					
Production					
Crude oil (bbl/d)	31,510	32,762	36,525	32,784	31,454
Condensate (bbl/d)	3,626	3,430	3,667	2,251	2,217
Natural gas (MMcf/d)	475.6	444.9	406.1	349.4	342.9
NGLs (bbl/d)	4,274	3,819	4,518	2,811	2,728
Total (boe/d)	118,671	114,167	112,387	96,087	93,546
Average realized prices, prior to hedging					
Crude oil (\$/bbl)	50.34	53.53	90.64	88.90	82.03
Condensate (\$/bbl)	50.98	53.84	93.81	94.13	92.63
Natural gas (\$/Mcf)	2.23	2.88	4.76	3.45	2.62
NGLs (\$/bbl)	13.85	10.70	39.45	36.25	38.11
Oil equivalent (\$/boe)	24.35	28.57	51.31	46.31	40.50
<b>RESERVES (company gross) <sup>(4)</sup></b>					
Proved plus probable reserves					
Crude oil and NGLs (mbbl)	195,500	199,826	192,489	194,064	185,548
Natural gas (bcf)	3,247.4	2,922.1	2,881.6	2,638.8	2,528.6
Total (mboe)	736,733	686,851	672,748	633,864	606,982
<b>TRADING STATISTICS (\$, based on intra-day trading)</b>					
High	24.94	25.87	33.68	29.95	26.25
Low	14.43	15.39	22.70	23.12	18.36
Close	23.11	16.70	25.16	29.57	24.44
Average daily volume (thousands)	1,760	1,832	1,344	1,064	1,356

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

(3) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" contained within this MD&A.

(4) Company gross reserves are the gross interest reserves before deduction of royalties and without including any royalty interests.

## QUARTERLY HISTORICAL REVIEW

(\$ millions, except per share amounts)	2016				2015			
<b>FINANCIAL</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Sales of crude oil, natural gas, condensate, NGLs and other income	331.8	265.6	234.9	231.2	285.9	279.5	321.7	306.6
Per share, basic	0.94	0.76	0.67	0.66	0.83	0.82	0.95	0.92
Per share, diluted	0.94	0.75	0.67	0.66	0.83	0.82	0.94	0.92
Net income (loss)	167.0	28.3	(58.1)	64.1	(55.0)	(235.0)	(51.0)	(1.7)
Per share, basic	0.47	0.08	(0.17)	0.18	(0.16)	(0.69)	(0.15)	(0.01)
Per share, diluted	0.47	0.08	(0.17)	0.18	(0.16)	(0.69)	(0.15)	(0.01)
Funds from operations <sup>(1)</sup>	188.5	153.0	141.7	150.1	200.7	174.9	206.3	191.5
Per share, basic	0.53	0.44	0.40	0.43	0.58	0.51	0.61	0.57
Per share, diluted	0.53	0.44	0.40	0.43	0.58	0.51	0.61	0.57
Dividends declared	52.9	52.9	52.5	69.9	103.8	103.0	102.1	101.6
Per share <sup>(2)</sup>	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30
Total assets	5,990.5	5,968.4	5,891.1	5,893.7	5,932.2	6,072.4	6,346.0	6,588.8
Total liabilities	2,505.7	2,622.3	2,547.0	2,466.1	2,543.7	2,578.3	2,565.7	2,704.2
Net debt outstanding <sup>(3)</sup>	356.5	1,009.4	969.3	868.4	985.1	981.1	878.1	950.5
Weighted average shares	352.8	351.7	350.5	348.7	345.6	342.8	340.4	333.2
Weighted average shares, diluted	353.5	352.3	350.5	348.9	345.6	342.8	340.4	333.2
Shares outstanding, end of period	353.3	352.2	351.1	349.8	347.1	344.2	341.5	339.3
<b>CAPITAL EXPENDITURES</b>								
Geological and geophysical	1.8	3.5	4.3	2.8	2.5	8.0	3.1	2.3
Drilling and completions	89.1	59.0	55.7	23.2	108.5	117.9	51.8	83.0
Plant and facilities	65.9	59.8	52.2	32.7	37.3	37.8	43.2	43.7
Administrative assets	2.4	0.2	0.4	0.4	1.2	0.5	0.3	0.5
Total capital expenditures	159.2	122.5	112.6	59.1	149.5	164.2	98.4	129.5
Undeveloped land	2.7	—	—	—	4.6	0.6	0.1	1.4
Total capital expenditures, including undeveloped land purchases	161.9	122.5	112.6	59.1	154.1	164.8	98.5	130.9
Acquisitions	14.6	31.6	111.6	15.1	0.3	—	14.1	—
Dispositions	(702.1)	(0.3)	(3.0)	—	(42.2)	(20.7)	(14.9)	(11.0)
Total capital expenditures, land purchases and net acquisitions and dispositions	(525.6)	153.8	221.2	74.2	112.2	144.1	97.7	119.9
<b>OPERATING</b>								
Production								
Crude oil (bbl/d)	29,885	29,642	31,702	34,852	33,899	29,397	31,958	35,851
Condensate (bbl/d)	3,767	3,562	3,733	3,442	3,631	3,361	3,139	3,591
Natural gas (MMcf/d)	478.4	466.7	467.5	489.7	469.1	425.1	426.0	459.6
NGLs (bbl/d)	4,220	4,221	4,336	4,319	3,523	3,653	3,795	4,314
Total (boe/d)	117,611	115,205	117,695	124,224	119,243	107,261	109,900	120,354
Average realized prices, prior to hedging								
Crude oil (\$/bbl)	59.20	52.43	52.80	38.64	49.24	52.43	64.49	48.73
Condensate (\$/bbl)	58.97	50.81	51.20	42.07	49.80	53.00	64.84	49.12
Natural gas (\$/Mcf)	3.10	2.35	1.39	2.05	2.59	3.03	2.88	3.05
NGLs (\$/bbl)	20.77	12.67	13.60	8.42	10.73	5.68	9.53	16.07
Oil equivalent (\$/boe)	30.29	25.03	21.87	20.39	26.01	28.22	32.10	28.20
<b>TRADING STATISTICS</b>								
(\$, based on intra-day trading)								
High	24.94	24.08	23.35	20.16	22.49	21.98	25.60	25.87
Low	21.55	20.87	17.43	14.43	15.39	15.57	21.01	20.75
Close	23.11	23.73	22.11	18.89	16.70	17.64	21.40	21.76
Average daily volume (thousands)	1,493	1,288	1,869	2,394	2,224	1,736	1,424	1,944

(1) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Funds from Operations" contained within this MD&A.

(2) Dividends per share are based on the number of shares outstanding at each dividend record date.

(3) Refer to Note 15 "Capital Management" in the financial statements and to the section entitled "Capitalization, Financial Resources and Liquidity" 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 primarily through the Audit Committee. The Audit Committee is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Professional 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 internal control over financial reporting for ARC Resources Ltd. and subsidiaries ("the Company") 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, 2016. The Company's internal control over financial reporting as of December 31, 2016 has been audited by Deloitte LLP, the Company's external auditors, who also audited the Company's consolidated financial statements for the year ended December 31, 2016.



Myron M. Stadnyk

President and Chief Executive Officer

Calgary, Alberta

February 8, 2017



P. Van R. Dafoe

Senior Vice President and Chief Financial Officer

## 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, 2016 and 2015 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 ARC Resources Ltd. and subsidiaries as at December 31, 2016 and 2015 and their financial performance and their 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, 2016, 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 8, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

*Deloitte LLP*

Chartered Professional Accountants  
February 8, 2017  
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, 2016, 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, 2016, 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 at and for the year ended December 31, 2016 of the Company and our report dated February 8, 2017 expressed an unmodified/unqualified opinion on those consolidated financial statements.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized script font followed by "LLP" in a bold, sans-serif font.

Chartered Professional Accountants  
February 8, 2017  
Calgary, Canada

**ARC RESOURCES LTD.****CONSOLIDATED BALANCE SHEETS**

As at

(Cdn\$ millions)	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	222.2	167.3
Short-term investments (Note 6)	450.0	3.2
Accounts receivable	164.7	116.6
Prepaid expenses	12.1	14.3
Risk management contracts (Note 16)	59.0	207.5
Assets held for sale (Note 11)	242.3	—
	<b>1,150.3</b>	<b>508.9</b>
Reclamation fund (Note 8)	36.5	34.3
Risk management contracts (Note 16)	123.4	204.7
Exploration and evaluation assets (Note 10)	313.2	276.4
Property, plant and equipment (Note 9, 11)	4,118.9	4,659.7
Goodwill	248.2	248.2
<b>Total assets</b>	<b>5,990.5</b>	<b>5,932.2</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	161.8	137.5
Current portion of long-term debt (Note 13)	51.5	57.9
Current portion of asset retirement obligations (Note 14)	15.5	18.0
Dividends payable (Note 18)	17.7	34.7
Risk management contracts (Note 16)	28.9	1.6
Liabilities associated with assets held for sale (Note 14)	171.1	—
	<b>446.5</b>	<b>249.7</b>
Risk management contracts (Note 16)	—	0.7
Long-term debt (Note 13)	974.5	1,056.4
Long-term incentive compensation liability (Note 19)	24.6	19.5
Other deferred liabilities	12.4	14.1
Asset retirement obligations (Note 14)	363.4	555.2
Deferred taxes (Note 17)	684.3	648.1
<b>Total liabilities</b>	<b>2,505.7</b>	<b>2,543.7</b>
Commitments and contingencies (Note 20)		
<b>SHAREHOLDERS' EQUITY</b>		
Shareholders' capital	4,654.9	4,536.9
Contributed surplus	17.6	12.6
Deficit	(1,188.0)	(1,161.1)
Accumulated other comprehensive income	0.3	0.1
<b>Total shareholders' equity</b>	<b>3,484.8</b>	<b>3,388.5</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,990.5</b>	<b>5,932.2</b>

See accompanying notes to the consolidated financial statements.

**Approved by the Board of Directors**


Harold N. Kvisle  
Chairman of the Board of Directors and Director



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



**ARC RESOURCES LTD.****CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31

(Cdn\$ millions, except per share amounts)	2016	2015
Sales of crude oil, natural gas, condensate, natural gas liquids and other income	1,063.5	1,193.7
Royalties	(89.0)	(103.3)
Revenue	974.5	1,090.4
Gain (loss) on risk management contracts (Note 16)	(36.7)	338.0
Revenue and risk management contracts	937.8	1,428.4
Transportation	95.4	97.0
Operating	289.0	298.0
Exploration and evaluation expenses (Note 10)	1.7	46.9
General and administrative	99.3	68.6
Interest and financing charges	50.5	51.0
Accretion of asset retirement obligations (Note 14)	12.1	13.4
Depletion, depreciation, amortization and impairment (Note 11)	431.5	1,065.4
Loss (gain) on foreign exchange	(33.3)	177.8
Loss (gain) on short-term investments (Note 6)	(1.2)	0.4
Gain on business combinations (Note 9)	(53.9)	—
Gain on disposal of petroleum and natural gas properties (Note 11)	(196.0)	(31.6)
Total expenses	695.1	1,786.9
Net income (loss) before income taxes	242.7	(358.5)
Provision for (recovery of) income taxes (Note 17)		
Current	25.4	(9.0)
Deferred	16.0	(6.8)
Total income taxes (recoveries)	41.4	(15.8)
Net income (loss)	201.3	(342.7)
Net income (loss) per share (Note 18)		
Basic	0.57	(1.01)
Diluted	0.57	(1.01)

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31

(Cdn\$ millions)	2016	2015
Net income (loss)	201.3	(342.7)
Other comprehensive income		
Items that may be reclassified into earnings, net of tax:		
Net unrealized gain on reclamation fund investments (Note 8)	0.2	0.1
Other comprehensive income	0.2	0.1
Comprehensive income (loss)	201.5	(342.6)

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended December 31

(Cdn\$ millions)	Shareholders' Capital (Note 18)	Contributed Surplus	Deficit	Accumulated other comprehensive income	Total Shareholders' Equity
December 31, 2014	3,951.1	8.6	(407.9)	—	3,551.8
Net loss	—	—	(342.7)	—	(342.7)
Other comprehensive income	—	—	—	0.1	0.1
Total comprehensive income (loss)	—	—	(342.7)	0.1	(342.6)
Shares issued for cash	402.7	—	—	—	402.7
Shares issued pursuant to the Dividend Reinvestment Plan	151.0	—	—	—	151.0
Shares issued pursuant to the Stock Dividend Program	44.5	—	—	—	44.5
Share issuance costs <sup>(1)</sup>	(12.4)	—	—	—	(12.4)
Recognized under share-based compensation plans (Note 19)	—	4.0	—	—	4.0
Dividends declared	—	—	(410.5)	—	(410.5)
December 31, 2015	4,536.9	12.6	(1,161.1)	0.1	3,388.5
Net income	—	—	201.3	—	201.3
Other comprehensive income	—	—	—	0.2	0.2
Total comprehensive income	—	—	201.3	0.2	201.5
Shares issued for cash on exercise of stock options (Note 19)	0.8	—	—	—	0.8
Shares issued pursuant to the Dividend Reinvestment Plan	91.0	—	—	—	91.0
Shares issued pursuant to the Stock Dividend Program	26.1	—	—	—	26.1
Share issuance costs	(0.2)	—	—	—	(0.2)
Recognized under share-based compensation plans (Note 19)	—	5.3	—	—	5.3
Contributed surplus transferred on exercise of share options (Note 18, 19)	0.3	(0.3)	—	—	—
Dividends declared	—	—	(228.2)	—	(228.2)
December 31, 2016	4,654.9	17.6	(1,188.0)	0.3	3,484.8

(1) Amount is net of deferred tax of \$4.4 million.

See accompanying notes to the consolidated financial statements.

**ARC RESOURCES LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31

(Cdn\$ millions)	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss)	201.3	(342.7)
Add items not involving cash:		
Unrealized loss (gain) on risk management contracts	253.2	(152.0)
Accretion of asset retirement obligations (Note 14)	12.1	13.4
Depletion, depreciation, amortization and impairment (Note 11)	431.5	1,065.4
Exploration and evaluation expenses (Note 10)	1.7	46.9
Unrealized loss (gain) on foreign exchange	(34.5)	178.5
Gain on business combinations (Note 9)	(53.9)	—
Gain on disposal of petroleum and natural gas properties (Note 11)	(196.0)	(31.6)
Deferred tax expense (recovery) (Note 17)	16.0	(6.8)
Other (Note 22)	1.9	2.3
Net change in other liabilities (Note 22)	(4.7)	(22.0)
Change in non-cash working capital (Note 22)	2.1	(62.4)
	<b>630.7</b>	<b>689.0</b>
<b>CASH FLOW FROM (USED IN) FINANCING ACTIVITIES</b>		
Repayment of long-term debt under revolving credit facilities, net	—	(83.8)
Repayment of senior notes	(55.1)	(53.8)
Issuance of common shares	0.8	402.7
Share issuance costs	(0.2)	(16.8)
Cash dividends paid	(128.0)	(212.3)
	<b>(182.5)</b>	<b>36.0</b>
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>		
Acquisition of petroleum and natural gas properties (Note 9, 11)	(172.9)	(14.4)
Disposal of petroleum and natural gas properties (Note 11)	705.4	88.8
Property, plant and equipment development expenditures (Note 11)	(417.6)	(514.0)
Exploration and evaluation asset expenditures (Note 10)	(38.0)	(33.9)
Net reclamation fund withdrawals (contributions) (Note 8)	(2.0)	0.9
Net purchase of short-term investments (Note 6)	(445.6)	—
Change in non-cash working capital (Note 22)	(22.6)	(92.2)
	<b>(393.3)</b>	<b>(564.8)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>54.9</b>	<b>160.2</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>167.3</b>	<b>7.1</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>222.2</b>	<b>167.3</b>
The following are included in cash flow from operating activities:		
Income taxes paid in cash	14.7	42.8
Interest paid in cash	50.5	52.0

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

### 1. STRUCTURE OF THE BUSINESS

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

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

### 2. BASIS OF PREPARATION

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") up to February 8, 2017. All financial information is reported in millions of Canadian dollars ("Cdn\$"), unless otherwise noted. References to "US\$" are to United States dollars.

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

At December 31, 2015, the financial statements included the accounts of ARC and its wholly owned subsidiaries, including ARC Resources General Partnership (the "partnership") and 1504793 Alberta Ltd. Effective March 1, 2016, ARC wound up 1504793 Alberta Ltd. resulting in the dissolution of the partnership. All transactions were executed on a tax deferred basis.

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

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

These financial statements were authorized for issue by the Board of Directors on February 8, 2017.

### 3. SUMMARY OF ACCOUNTING POLICIES

#### Cash and Cash Equivalents

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

#### Reclamation Fund

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

#### Goodwill

ARC records goodwill relating to a business combination when the total purchase price exceeds the fair value of the identifiable assets and liabilities of the acquired business. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is evaluated for impairment on an annual basis, or more frequently if potential indicators of impairment exist.

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

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and

external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. Net revenues from test production associated with assets classified as E&E are 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"). The relevant assets are assessed for impairment prior to any such transfer. If a decision not to continue an E&E project is made by Management, all associated costs are charged to the consolidated statements of income (the "statements of income") in E&E expenses at that time.

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

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

### **Capitalization of Exploration and Development Costs**

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

### **Impairment of Non-Financial Assets**

#### *Development and Production Assets*

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

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

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

#### *E&E Assets*

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

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

#### *Goodwill*

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

### **Assets Held for Sale**

Non-current assets 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.

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

### **Dispositions**

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

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

### **Business Combinations**

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

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

### **DD&A**

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

- (a) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;
- (b) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and
- (c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

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

### **Provisions and ARO**

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

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

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

### **Financial Instruments**

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

- *Fair value through profit or loss*  
Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings. ARC classifies its cash and cash equivalents, short-term investments, and risk management contracts as held-for-trading.
- *Held-to-maturity investments, loans and receivables and other financial liabilities*  
Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. ARC classifies accounts receivable as loans and receivables, and classifies accounts payable and accrued liabilities, dividends payable, and long-term debt as other financial liabilities.
- *Available-for-sale financial assets*  
Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of income. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is an impairment. ARC classifies its reclamation fund assets as available-for-sale assets.

### **Fair Value Measurement**

ARC measures its cash and cash equivalents, risk management contracts, and reclamation fund at fair value at each reporting date. Prior to December 31, 2016, ARC also measured its short-term investment at fair value at each reporting date. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment. In addition, the fair value of long-term debt is disclosed in Note 13.

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



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

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

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

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

#### **Impairment of Financial Assets**

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

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

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

#### **Income Taxes**

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

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

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

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

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

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

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

### **Revenue Recognition**

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

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

### **Transportation**

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

### **Share-Based Compensation Plans**

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

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

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

### **Government Grants**

Government grants are recognized when there is reasonable assurance that ARC will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expenses, it is recognized in the statements of income in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying

asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through reduced DD&A charges.

#### **Joint Arrangements**

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

#### **Foreign Currency Translation**

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

ARC's functional and presentation currency is Canadian dollars.

### **4. FUTURE ACCOUNTING POLICY CHANGES**

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by ARC on January 1, 2018. The Company has created a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income, unless this creates an accounting mismatch. The Company anticipates that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. ARC does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by ARC on January 1, 2018.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by ARC on January 1, 2019 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.

### Crude Oil and Natural Gas Reserves and Resources

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

### Determination of Cash Generating Units

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

### Recoverability of Asset Carrying Values

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

At December 31, 2016, ARC evaluated its development and production assets and E&E assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on ARC's development and production assets and E&E assets for the year ended December 31, 2016.

ARC conducted tests of impairment in 2015 on all of its CGUs as a result of decreases in the outlook of future commodity prices as well as, in some CGUs, negative technical reserve revisions in areas with little capital development activity in that year and decreased undeveloped land fair values. As a result of the impairment tests conducted during the year ended December 31, 2015, ARC recorded impairment charges to its PP&E of \$400.0 million.

For ARC's CGUs with impairment charges recorded for the year ended December 31, 2015, the following table summarizes the asset's primary product composition, estimated recoverable amount, estimated discount rate assumed, impairment charges recognized, and after-tax impairment charges:

CGU	Primary type of producing assets	Recoverable amount	Discount rate <sup>(1)</sup>	Impairment	Impairment, net of tax
Northern Alberta	Crude oil and natural gas	802.0	9.0%	120.0	88.3
Pembina	Crude oil	697.0	9.0%	120.0	88.3
Redwater	Crude oil	255.0	9.0%	75.0	55.2
Southern Alberta & Southwest Saskatchewan	Natural gas	34.0	9.5%	15.0	11.0
Southeast Saskatchewan & Manitoba	Crude oil	533.0	9.0%	70.0	51.4
Total impairment recorded for the year ended December 31, 2015				400.0	294.2

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

In estimating the recoverable amount of each CGU at December 31, 2015, the following information was incorporated:

- i) The net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC's independent reserve evaluator at December 31, 2015, adjusted for the net present value of the after-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.
- ii) The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2015.
- iii) Where applicable, economic contingent resources associated with interests in certain of ARC's properties.
- iv) Recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

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

- a) Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being revised.
- b) Crude oil and natural gas prices – Forward price estimates of 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 as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital ranging from nine to nine and a half per cent, depending on the resource composition of the assets in the CGU, an inflation rate of two per cent, and the following forward commodity price estimates:

	<b>Edmonton Light Crude Oil</b>	<b>WTI Oil</b>	<b>AECO Gas</b>	<b>Cdn\$/US\$</b>
<b>Year</b>	<b>(Cdn\$/bbl) <sup>(1,2)</sup></b>	<b>(US\$/bbl) <sup>(1,2)</sup></b>	<b>(Cdn\$/MMbtu) <sup>(1,2)</sup></b>	<b>Exchange Rates <sup>(1,2)</sup></b>
2016	55.86	44.00	2.76	0.73
2017	64.00	52.00	3.27	0.75
2018	68.39	58.00	3.45	0.78
2019	73.75	64.00	3.63	0.80
2020	78.79	70.00	3.81	0.83
2021	82.35	75.00	3.90	0.85
2022	88.24	80.00	4.10	0.85
2023	94.12	85.00	4.30	0.85
2024	96.48	87.88	4.50	0.85
2025	98.41	89.63	4.60	0.85
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	0.85

(1) Source: GLJ Petroleum Consultants price forecast, effective January 1, 2016.

(2) The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the Company's impairment tests.

The fair value less costs of disposal values used to determine the recoverable amounts of the impaired PP&E assets are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data but, rather, Management's best estimates. Refer to Note 3 for information on fair value hierarchy classifications.

The results of the impairment tests conducted during the year ended December 31, 2015 are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

The following table demonstrates the effect of the assumed discount rate and the effect of forecast benchmark commodity prices estimates on impairment charges for each CGU recorded for the year ended December 31, 2015. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and a five per cent increase and five per cent decrease in the forecast benchmark commodity price estimate.

	<b>Increase in Discount Rate of 1 per cent</b>	<b>Decrease in Discount Rate of 1 per cent</b>	<b>Increase in Commodity Prices of 5 per cent</b>	<b>Decrease in Commodity Prices of 5 per cent</b>
Northern Alberta	60.0	(28.0)	(17.0)	57.0
Pembina	117.0	(9.0)	(49.0)	40.0
Redwater	17.0	(35.0)	(23.0)	12.0
Southern Alberta & Southwest Saskatchewan	3.0	(2.0)	(3.0)	3.0
Southeast Saskatchewan & Manitoba	40.0	(70.0)	(70.0)	43.0
Impairment charge increase (decrease)	237.0	(144.0)	(162.0)	155.0

At December 31, 2016, ARC conducted an impairment test of goodwill, as required to be performed annually. The carrying value of goodwill at December 31, 2016 of \$248.2 million was not impaired as the recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's CGUs and goodwill. No impairment was recorded on goodwill for the year ended December 31, 2015.

In estimating the recoverable amount of ARC's CGUs at December 31, 2016, the following information was incorporated:

- i) The net present value of the after-tax cash flows from proved plus probable oil and gas reserves of the CGUs based on reserves estimated by ARC's independent reserve evaluator at December 31, 2016, adjusted for the net present value of the after-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years.
- ii) The fair value of undeveloped land based on estimates provided by ARC's independent land evaluator at December 31, 2016.
- iii) Where applicable, economic contingent resources associated with interests in certain of ARC's properties.

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

- a) Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being revised.
- b) Crude oil and natural gas prices – Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.



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

	<b>Edmonton Light Crude Oil</b>	<b>WTI Oil</b>	<b>AECO Gas</b>	<b>Cdn\$/US\$</b>
<b>Year</b>	<b>(Cdn\$/bbl) <sup>(1,2)</sup></b>	<b>(US\$/bbl) <sup>(1,2)</sup></b>	<b>(Cdn\$/MMbtu) <sup>(1,2)</sup></b>	<b>Exchange Rates <sup>(1,2)</sup></b>
2017	69.33	55.00	3.46	0.75
2018	72.26	59.00	3.10	0.78
2019	75.00	64.00	3.27	0.80
2020	76.36	67.00	3.49	0.83
2021	78.82	71.00	3.67	0.85
2022	82.35	74.00	3.86	0.85
2023	85.88	77.00	4.05	0.85
2024	89.41	80.00	4.16	0.85
2025	92.94	83.00	4.24	0.85
2026	95.61	86.05	4.32	0.85
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	0.85

(1) Source: GLJ Petroleum Consultants price forecast, effective January 1, 2017.

(2) The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the goodwill impairment test.

### Business Combinations

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

### Depletion of Oil and Gas Assets

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

### Oil and Gas Activities

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

### Joint Control

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

### Provisions

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

### Asset Retirement Obligations

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

### **Fair Value of Financial Instruments**

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward 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.

### **Share-Based Compensation**

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

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

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

### **Income Taxes**

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

## **6. SHORT-TERM INVESTMENTS**

ARC's short-term investments balance was \$450.0 million at December 31, 2016 and was held in investment-grade assets. At December 31, 2015, the short-term investments balance was \$3.2 million and was held in shares in a publicly traded petroleum and natural gas producing company that had an initial cost of \$2.9 million. During 2016, the shares were sold for proceeds of \$4.4 million.

## **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 15 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, 2016 pertains to accrued sales revenue for December 2016 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 25<sup>th</sup> day of the month following production. Joint interest receivables are typically collected within one to three months following production.

ARC's allowance for doubtful accounts was \$0.3 million as at December 31, 2016 (\$nil as at December 31, 2015). During the year ended December 31, 2016, ARC recognized \$0.5 million of bad debt expense in the statements of income (\$0.1 million for the year ended December 31, 2015).



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, 2016, \$4.3 million of accounts receivable are past due, the balance of which are considered to be collectible (\$1.3 million at December 31, 2015).

ARC's accounts receivable was aged as follows at December 31, 2016:

<b>Accounts Receivable Aging</b>	<b>December 31, 2016</b>	December 31, 2015
Current (less than 30 days)	<b>159.9</b>	110.2
31 - 60 days	<b>0.5</b>	4.7
61 - 90 days	<b>—</b>	0.4
Past due (more than 90 days)	<b>4.3</b>	1.3
December 31, 2016	<b>164.7</b>	116.6

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

## 8. RECLAMATION FUND

In 2005, ARC established a restricted reclamation fund to finance obligations specifically associated with its Redwater property. Minimum contributions to this fund will be approximately \$57.5 million in total over the next 39 years. Under the terms of ARC's investment policy, cash in the reclamation fund can only be invested in certain securities and require a minimum credit rating for investments of A or higher.

	<b>Year Ended December 31, 2016</b>	Year Ended December 31, 2015
Balance, beginning of year	34.3	35.2
Contributions	<b>3.3</b>	3.4
Reimbursed expenditures <sup>(1)</sup>	<b>(1.9)</b>	(5.1)
Interest earned on funds	<b>0.6</b>	0.7
Net unrealized OCI gains on available-for-sale assets	<b>0.2</b>	0.1
Balance, end of year	<b>36.5</b>	34.3

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

Required contributions to this fund will vary over time and have been disclosed as commitments in Note 20. Interest earned on the respective investments is retained within the fund.

## 9. BUSINESS COMBINATIONS

The acquisitions listed below have been recorded as business combinations under IFRS 3. The preliminary estimates of the net assets acquired and gains on business combinations disclosed below are based on information that existed at the time of the preparation of these financial statements. Subsequent amendments may be made to these amounts as the estimates are finalized.

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

<b>Net assets acquired</b>	
Development and production assets	174.2
ARO	(12.7)
Deferred income tax liability	(13.3)
Total identifiable net assets	148.2
Gain on business combination	(36.7)
Total net assets acquired, net of gain on business combination	111.5
<b>Consideration paid</b>	
Cash consideration	111.5

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

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

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

<b>Net assets acquired</b>	
Development and production assets	52.8
ARO	(2.5)
Deferred income tax liability	(5.0)
Total identifiable net assets	45.3
Gain on business combination	(13.7)
Total net assets acquired, net of gain on business combination	31.6
<b>Consideration paid</b>	
Cash consideration	31.6

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

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

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

Net assets acquired	
Development and production assets	0.5
Consideration paid	
Cash consideration	0.5

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

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

Carrying Amount	
Balance at January 1, 2015	266.4
Additions	33.9
Acquisitions	27.1
Assets reclassified as held for sale and disposed in period	(8.4)
E&E expenses	(46.9)
Change in asset retirement cost	4.3
Balance, December 31, 2015	276.4
Additions	38.0
E&E expenses	(1.7)
Change in asset retirement cost	0.5
Balance, December 31, 2016	313.2

ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. For the years ended December 31, 2016 and 2015, 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 \$10.3 million and \$7.0 million, royalties of \$0.3 million and \$0.2 million, operating expenses of \$4.4 million and \$4.2 million, and transportation expenses of \$0.9 million and \$0.9 million, respectively. All operating cash flows associated with E&E assets for the years ended December 31, 2016 and 2015 are reflected in cash flow from operating activities.

During the year ended December 31, 2015, ARC recorded impairment charges totaling \$46.9 million on one of its E&E assets where Management had decided to indefinitely delay any further investment to evaluate the asset and sufficient data existed to indicate that the carrying value of the asset would not be fully recovered from any future development or sale. ARC disposed of this E&E asset in 2015.

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

<b>Cost</b>	<b>Development and Production Assets</b>	<b>Administrative Assets</b>	<b>Total</b>
Balance, January 1, 2015	7,917.1	61.4	7,978.5
Additions	511.9	2.5	514.4
Acquisitions	16.8	—	16.8
Change in asset retirement cost	33.4	—	33.4
Assets reclassified as held for sale and disposed in period	(498.0)	—	(498.0)
Balance, December 31, 2015	7,981.2	63.9	8,045.1
Additions	<b>414.7</b>	<b>3.4</b>	<b>418.1</b>
Acquisitions	<b>30.1</b>	—	<b>30.1</b>
Business combinations (Note 9)	<b>217.7</b>	—	<b>217.7</b>
Cost derecognized in respect of business combination achieved in stages (Note 9)	(87.1)	—	(87.1)
Change in asset retirement cost	<b>66.1</b>	—	<b>66.1</b>
Assets reclassified as held for sale and disposed in period	(1,148.4)	—	(1,148.4)
Assets reclassified as held for sale	(454.0)	—	(454.0)
Balance, December 31, 2016	<b>7,020.3</b>	<b>67.3</b>	<b>7,087.6</b>
<b>Accumulated DD&amp;A and impairment</b>			
Balance, January 1, 2015	(2,630.3)	(28.1)	(2,658.4)
DD&A	(589.7)	(6.1)	(595.8)
Impairment	(469.6)	—	(469.6)
Accumulated depletion and impairment reclassified as held for sale and disposed in period	338.4	—	338.4
Balance, December 31, 2015	(3,351.2)	(34.2)	(3,385.4)
DD&A	<b>(494.4)</b>	<b>(5.4)</b>	<b>(499.8)</b>
Impairment reversal	<b>68.3</b>	—	<b>68.3</b>
Accumulated depletion and impairment derecognized in respect of business combination achieved in stages (Note 9)	<b>87.1</b>	—	<b>87.1</b>
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	<b>549.4</b>	—	<b>549.4</b>
Accumulated depletion and impairment reclassified as held for sale	<b>211.7</b>	—	<b>211.7</b>
Balance, December 31, 2016	<b>(2,929.1)</b>	<b>(39.6)</b>	<b>(2,968.7)</b>
<b>Carrying amounts</b>			
Balance, December 31, 2015	4,630.0	29.7	4,659.7
Balance, December 31, 2016	<b>4,091.2</b>	<b>27.7</b>	<b>4,118.9</b>

For the year ended December 31, 2016, \$21.2 million of direct and incremental G&A expenses were capitalized to PP&E (\$28.0 million for the year ended December 31, 2015). At December 31, 2016, future development costs of \$2.8 billion were included in the depletion calculation (\$2.7 billion at December 31, 2015).

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

gain on disposal of \$189.4 million in the statements of income for the year ended December 31, 2016. Throughout 2016, ARC disposed of other non-core assets in Alberta for net proceeds of \$21.6 million and recognized additional impairment of \$0.6 million in DD&A and impairment in the statements of income, as well as gains on disposal of \$6.6 million.

At December 31, 2016, ARC classified certain non-core assets in Alberta as held for sale. Immediately prior to classifying the assets as held for sale, ARC conducted a review of the assets' recoverable amounts and transferred these assets at their carrying amount, with no impairment or reversal of impairment recorded. The assets are expected to be divested in 2017.

<b>Assets held for sale</b>	
Balance, January 1, 2015	5.8
Additions	168.0
Disposals	(173.8)
Balance, December 31, 2015	—
Additions	841.3
Disposals	(599.0)
Balance, December 31, 2016	242.3

The assets held for sale had associated liabilities held for sale of \$171.1 million at December 31, 2016, consisting of related ARO.

## 12. 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 13 for further details on available amounts under existing banking arrangements and Note 15 for further details on ARC's capital management objectives and policies.

The following tables detail the contractual maturities of ARC's financial liabilities as at December 31, 2016 and 2015:

<b>As at December 31, 2016</b>	<b>Carrying Amount</b>	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Beyond 5 Years</b>
Accounts payable and accrued liabilities <sup>(1)</sup>	161.8	161.8	—	—	—
Dividends payable	17.7	17.7	—	—	—
Risk management contracts <sup>(2)</sup>	28.9	28.9	—	—	—
Long-term debt	1,026.0	51.5	158.4	308.7	507.4
Long-term incentive compensation liability	24.6	—	24.6	—	—
<b>Total financial liabilities</b>	<b>1,259.0</b>	<b>259.9</b>	<b>183.0</b>	<b>308.7</b>	<b>507.4</b>

<b>As at December 31, 2015</b>	<b>Carrying Amount</b>	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Beyond 5 Years</b>
Accounts payable and accrued liabilities <sup>(1)</sup>	137.5	137.5	—	—	—
Dividends payable	34.7	34.7	—	—	—
Risk management contracts <sup>(2)</sup>	2.3	1.6	0.7	—	—
Long-term debt	1,114.3	57.9	134.8	240.5	681.1
Long-term incentive compensation liability	19.5	—	19.5	—	—
<b>Total financial liabilities</b>	<b>1,308.3</b>	<b>231.7</b>	<b>155.0</b>	<b>240.5</b>	<b>681.1</b>

(1) Includes the portion of the cash obligations associated with the RSU and PSU Plan 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 and dividends payable accounts approximate their fair values.

### 13. LONG-TERM DEBT

	US \$ Denominated		Canadian \$ Amount	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Senior notes				
Master Shelf Agreement				
5.42% US\$ note	9.4	18.8	12.6	26.0
4.98% US\$ note	30.0	40.0	40.3	55.4
3.72% US\$ note	150.0	150.0	201.4	207.6
2004 note issuance				
5.10% US\$ note	—	4.8	—	6.6
2009 note issuance				
7.19% US\$ note	—	13.5	—	18.7
8.21% US\$ note	35.0	35.0	47.0	48.4
6.50% Cdn\$ note	N/A	N/A	—	5.8
2010 note issuance				
5.36% US\$ note	150.0	150.0	201.4	207.6
2012 note issuance				
3.31% US\$ note	60.0	60.0	80.6	83.0
3.81% US\$ note	300.0	300.0	402.7	415.2
4.49% Cdn\$ note	N/A	N/A	40.0	40.0
Total long-term debt outstanding	734.4	772.1	1,026.0	1,114.3
Long-term debt due within one year			51.5	57.9
Long-term debt due beyond one year			974.5	1,056.4

#### Credit Facility

ARC has a \$950.0 million, annually extendable, financial covenant-based syndicated credit facility ("the facility"). The current maturity date of the facility is November 6, 2020. ARC also has in place a \$40.0 million demand working capital facility and letter of credit facilities from two lenders totaling \$40.0 million. Both the working capital facility and the letter of credit facilities are subject to the same covenants as the syndicated credit facility.

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

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

These senior notes were issued in 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\$9.4 million	5.42%	December 15, 2017	Eight equal installments beginning December 15, 2010
March 5, 2010	US\$30 million	4.98%	March 5, 2019	Five equal installments beginning March 5, 2015
September 25, 2014	US\$150 million	3.72%	September 25, 2026	Five equal installments beginning September 25, 2022

**Senior Notes Not Subject to the Master Shelf Agreement**

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

Issue Date	Remaining Principal	Coupon Rate	Maturity Date	Principal Payment Terms
April 14, 2009	US\$35 million	8.21%	April 14, 2021	Five equal installments beginning April 14, 2017
May 27, 2010	US\$150 million	5.36%	May 27, 2022	Five equal installments beginning May 27, 2018
August 23, 2012	US\$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, 2016:

	Credit Capacity	Drawn	Remaining
Syndicated credit facility	950.0	—	950.0
Working capital facility	40.0	—	40.0
Senior notes subject to a Master Shelf Agreement <sup>(1)</sup>	470.0	254.3	215.7
Senior notes not subject to a Master Shelf Agreement	771.7	771.7	—
<b>Total</b>	<b>2,231.7</b>	<b>1,026.0</b>	<b>1,205.7</b>

(1) Total credit capacity is US\$350.0 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 12 month net income before non-cash items, income taxes and interest expense;
- long-term debt, letters of credit, and subordinated debt not to exceed four times trailing 12 month net income before non-cash items, income taxes and interest expense; and
- long-term debt and letters of credit not to exceed 50 per cent of the book value of shareholders' equity and long-term debt, letters of credit, and subordinated debt.

In the event that ARC enters into a material acquisition whereby the purchase price exceeds 10 per cent of the carrying value of ARC's assets, the ratio in the first covenant is increased to 3.5 times, while the third covenant is increased to 55 per cent for the subsequent six month period. As at December 31, 2016, ARC had \$12.2 million in letters of credit (\$15.6 million at December 31, 2015), no subordinated debt, and was in compliance with all covenants.

At December 31, 2016, the fair value of all senior notes is \$1,032.7 million (\$1,086.4 million as at December 31, 2015), compared to a carrying value of \$1,026.0 million (\$1,114.3 million as at December 31, 2015).



#### 14. ASSET RETIREMENT OBLIGATIONS ("ARO")

The total future ARO was estimated by Management based on ARC's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. ARC has estimated the net present value of its total ARO to be \$378.9 million as at December 31, 2016 (\$573.2 million at December 31, 2015) based on a total future undiscounted liability of \$725.9 million (\$1.2 billion at December 31, 2015). At December 31, 2016, Management estimates that these payments are expected to be made over the next 60 years with the majority of payments being made in years 2065 to 2076. The Bank of Canada's long-term risk-free bond rate of 2.3 per cent (2.2 per cent at December 31, 2015) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2015) were used to calculate the present value of ARO at December 31, 2016.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Balance, beginning of year	573.2	616.1
Increase in liabilities relating to development activities	5.3	5.3
Increase in liabilities relating to change in estimates and discount rate <sup>(1)</sup>	2.8	32.4
Settlement of obligations	(13.0)	(12.3)
Accretion	12.1	13.4
Acquisitions and business combinations	16.4	—
Revaluation of obligations acquired in business combination <sup>(2)</sup>	42.1	—
Dispositions	(88.9)	(81.7)
Reclassified as liabilities associated with assets held for sale	(171.1)	—
Balance, end of year	378.9	573.2
Expected to be incurred within one year	15.5	18.0
Expected to be incurred beyond one year	363.4	555.2

(1) Relates to changes in discount rate and anticipated settlement dates of ARO.

(2) Relates to the revaluation of obligations acquired in business combinations subsequent to their initial measurement.

#### 15. CAPITAL MANAGEMENT

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

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

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

ARC manages the following capital:

- common shares; and
- net debt.

When evaluating ARC's capital structure, Management's long-term strategy is to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. At December 31, 2016, ARC's net debt was 0.6 times its funds from operations as ARC received proceeds from dispositions completed in the fourth quarter of 2016. The proceeds from the dispositions are currently held in short-term investment-grade assets. Over time, ARC expects its net debt to funds from operations ratio to return to the target levels of between one to 1.5 times annualized funds from operations as the proceeds will be reinvested to fund continued capital development in ARC's core areas.

### Funds from Operations

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

Funds from operations for the years ended December 31, 2016 and 2015 is calculated as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash flow from operating activities	630.7	689.0
Net change in other liabilities (Note 22)	4.7	22.0
Change in non-cash operating working capital (Note 22)	(2.1)	62.4
Funds from operations	633.3	773.4

### Net Debt and Total Capitalization

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

	December 31, 2016	December 31, 2015
Long-term debt <sup>(1)</sup>	1,026.0	1,114.3
Accounts payable and accrued liabilities	161.8	137.5
Dividends payable	17.7	34.7
Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investments	(849.0)	(301.4)
Net debt	356.5	985.1
Shares outstanding (millions) <sup>(2)</sup>	353.3	347.1
Share price (\$) <sup>(3)</sup>	23.11	16.70
Market capitalization	8,164.8	5,796.6
Net debt	356.5	985.1
Total capitalization	8,521.3	6,781.7
Net debt as a percentage of total capitalization (%)	4.2	14.5
Net debt to funds from operations (ratio)	0.6	1.3

(1) Includes current portion of long-term debt at December 31, 2016 and 2015 of \$51.5 million and \$57.9 million, respectively.

(2) Basic shares outstanding as at December 31, 2016 and 2015, respectively.

(3) TSX closing price as at December 31, 2016 and 2015, respectively.

## 16. 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 investments, and reclamation fund are classified as Level 1 measurements in the three-level fair value measurement hierarchy and its risk management contracts and fair value disclosure for its long-term debt are classified as Level 2 measurements. ARC does not have any financial instruments classified as Level 3 and there were no transfers between levels in the hierarchy in the year ended December 31, 2016.

## 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, 2016 and 2015:

	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
<b>As at December 31, 2016</b>					
Risk management contracts					
Current asset	100.1	(40.7)	59.4	(0.4)	59.0
Long-term asset	140.5	(16.2)	124.3	(0.9)	123.4
Current liability	(70.3)	40.7	(29.6)	0.7	(28.9)
Long-term liability	(16.2)	16.2	—	—	—
Net position	154.1	—	154.1	(0.6)	153.5
<b>As at December 31, 2015</b>					
Risk management contracts					
Current asset	214.3	(5.0)	209.3	(1.8)	207.5
Long-term asset	210.0	(3.5)	206.5	(1.8)	204.7
Current liability	(6.6)	5.0	(1.6)	—	(1.6)
Long-term liability	(4.2)	3.5	(0.7)	—	(0.7)
Net position	413.5	—	413.5	(3.6)	409.9

## Market Risk Management

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

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

ARC has prepared sensitivity analyses in an attempt to demonstrate the hypothetical effect of changes in these market risk factors on ARC's net income. For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Management's assessment of reasonably possible changes that could occur at December 31, 2016. 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 production guidance over the next two years and 25 per cent of production guidance beyond two years and up to five years where a specific commodity (crude oil or natural gas) cannot exceed a maximum of 70 per cent. 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, 2016.

<b>Sensitivity of Commodity Price Risk Management Contracts</b>						
	Increase in Commodity Price			Decrease in Commodity Price		
	Crude Oil <sup>(1)</sup>	Natural Gas <sup>(2)</sup>	Electricity <sup>(3)</sup>	Crude Oil <sup>(1)</sup>	Natural Gas <sup>(2)</sup>	Electricity <sup>(3)</sup>
Net income increase (decrease)	(52.4)	(138.7)	1.3	42.4	139.5	(1.3)

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

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

(3) Electricity sensitivities are based on a Cdn\$10 increase and decrease in the Alberta Electric System Operator ("AESO") power price.

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

#### *Interest Rate Risk*

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

At December 31, 2016, ARC did not hold any variable interest rate debt and therefore was not exposed to interest rate risk on its long-term debt.

#### *Foreign Exchange Risk*

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

The following table demonstrates the effect of exchange rate movements on net income due to changes in the fair value of risk management contracts in place at December 31, 2016 as well as the unrealized gain or loss on revaluation of outstanding US dollar denominated debt. The sensitivity is based on a \$0.10 increase and decrease in the Cdn\$/US\$ foreign exchange rate.

<b>Sensitivity of Foreign Exchange Exposure</b>	<b>Increase in Cdn\$/US\$ rate</b>	<b>Decrease in Cdn\$/US\$ rate</b>
Risk management contracts	(3.6)	5.6
US dollar denominated debt	(53.9)	53.9
Net income increase (decrease)	(57.5)	59.5

Increases and decreases in foreign exchange rates applicable to US dollar denominated payables and receivables would have a nominal impact on ARC's net income for the year ended December 31, 2016.

## Risk Management Contracts

The following is a summary of all risk management contracts in place, excluding premiums, as at December 31, 2016. Risk management contract premiums have been disclosed as commitments in Note 20.

Financial WTI Crude Oil Contracts <sup>(1) (2)</sup>						
Term		Contract	Volume bbl/d	Bought Put US\$/bbl	Sold Call US\$/bbl	Sold Put US\$/bbl
1-Jan-17	31-Dec-17	Collar	3,000	40.00	50.00	—
1-Jan-17	31-Dec-17	3-Way Collar	8,000	46.25	57.61	34.38
1-Jul-17	31-Dec-17	3-Way Collar	3,000	50.00	58.73	37.50
1-Jan-18	31-Dec-18	3-Way Collar	4,000	50.00	65.39	40.00

(1) Settled on the monthly average price.

(2) The prices and volumes in this table represent averages for several contracts. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts.

Financial Cdn\$ WTI Crude Oil Contracts <sup>(3)</sup>					
Term		Contract	Volume bbl/d	Bought Put Cdn\$/bbl	Sold Call Cdn\$/bbl
1-Jan-17	30-Jun-17	Collar	3,000	70.00	83.38
1-Jan-18	31-Dec-18	Collar	2,000	65.00	76.25

(3) Settled on the monthly average price (monthly average US\$/bbl multiplied by the Bank of Canada monthly average noon day rate).

Financial MSW Crude Oil Contracts <sup>(4)</sup>				
Term		Contract	Volume bbl/d	Sold Swap US\$/bbl
1-Jan-17	31-Dec-17	Swap	10,000	(3.22)

(4) Settled on the monthly average MSW differential to WTI. The MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis.

Financial NYMEX Henry Hub Natural Gas Contracts <sup>(5)</sup>						
Term		Contract	Volume MMBtu/d	Sold Swap US\$/MMBtu	Bought Put US\$/MMBtu	Sold Call US\$/MMBtu
1-Jan-17	31-Dec-17	Swap	145,000	4.00	—	—
1-Jan-17	31-Dec-17	Collar	20,000	—	3.00	3.37
1-Jan-18	31-Dec-18	Collar	80,000	—	4.00	4.91
1-Jan-18	31-Dec-18	3-Way Collar	20,000	—	3.00	3.65
1-Jan-18	31-Dec-19	Collar	10,000	—	4.00	5.00
1-Jan-19	31-Dec-19	Collar	30,000	—	4.00	5.00

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

Financial AECO Natural Gas Contracts <sup>(6)</sup>						
Term		Contract	Volume GJ/d	Sold Swap Cdn\$/GJ	Bought Put Cdn\$/GJ	Sold Call Cdn\$/GJ
1-Jan-17	31-Dec-17	Swap	60,000	2.64	—	—
1-Jul-17	31-Dec-17	Swap	20,000	3.05	—	—
1-Jan-18	31-Dec-18	Swap	40,000	2.96	—	—
1-Jan-19	31-Dec-19	Swap	20,000	3.16	—	—
1-Jan-19	31-Dec-19	Collar	10,000	—	3.00	3.30
1-Jan-20	31-Dec-20	Swap	30,000	3.35	—	—
1-Jan-20	31-Dec-20	Collar	30,000	—	3.08	3.60

(6) AECO Monthly (7A) index Cdn\$/GJ.

**Financial AECO Basis Ratio Swap Contracts <sup>(7)</sup>**

Term		Contract	Volume MMBtu/d	Sold Swap AECO/NYMEX %
1-Jan-17	31-Dec-17	Swap	110,000	90.6
1-Jan-17	30-Jun-18	Swap	20,000	89.9
1-Jan-17	31-Dec-17	Swap	10,000	86.1
1-Jan-17	31-Dec-18	Swap	5,000	77.0
1-Jan-18	31-Dec-18	Swap	45,000	81.9
1-Jan-18	30-Jun-19	Swap	20,000	90.8
1-Jul-18	31-Dec-18	Swap	20,000	85.4
1-Jan-19	31-Dec-19	Swap	20,000	81.7
1-Jul-19	31-Dec-19	Swap	20,000	80.7

(7) ARC receives NYMEX price based on Last Day settlement multiplied by AECO/NYMEX US\$/MMBtu ratio; ARC pays AECO Monthly (7A) index US\$/MMBtu.

**Financial AECO Basis Fixed Price Swap Contracts <sup>(8)</sup>**

Term		Contract	Volume MMBtu/d	Bought Swap US\$/MMBtu	Sold Swap US\$/MMBtu
1-Jan-17	31-Jan-17	Swap	50,000	(0.93)	—
1-Jan-17	31-Dec-17	Swap	65,000	—	(0.83)
1-Jan-17	31-Dec-18	Swap	5,000	—	(0.64)
1-Jan-18	31-Dec-18	Swap	60,000	—	(0.75)
1-Jan-19	31-Dec-19	Swap	60,000	—	(0.69)
1-Jan-19	31-Dec-20	Swap	10,000	—	(0.83)
1-Jan-20	31-Dec-20	Swap	50,000	—	(0.64)

(8) ARC receives NYMEX price based on Last Day settlement less AECO fixed price differential; ARC pays AECO (7A) monthly index US\$/MMBtu.

**Financial Electricity Heat Rate Contracts <sup>(9)</sup>**

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

(9) ARC pays AECO Monthly (5A) x Heat Rate; ARC receives floating AESO Power Price (monthly average 24x7) Cdn\$/MWh.

**17. INCOME TAXES**

The major components of income tax expense for the years ended December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
Current:		
Current year	21.7	2.5
Adjustments for prior years	3.7	(11.5)
	25.4	(9.0)
Deferred:		
Origination and reversal of temporary differences	19.6	(39.0)
Adjustments for prior years	(3.1)	3.9
Changes in tax rates and legislation	(0.5)	28.3
	16.0	(6.8)
Total provision for (recovery of) income taxes	41.4	(15.8)

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

	December 31, 2016	December 31, 2015
Income (loss) before tax	242.7	(358.5)
Canadian statutory rate <sup>(1)</sup>	26.7%	26.1%
Expected income tax expense (recovery) at statutory rates	64.8	(93.6)
Effect on income tax of:		
Change in corporate tax rate	(0.6)	27.1
Non-deductible portion of unrealized foreign exchange losses (gains)	(5.1)	23.1
Non-taxable gain on business combination	(14.8)	—
Change in estimated pool balances	0.6	(7.6)
Change in unrecognized deferred tax asset on unrealized and realized foreign exchange losses	(4.5)	34.2
Other	1.0	1.0
Total provision for (recovery of) income taxes	41.4	(15.8)

(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, 2016 and 2015. The combined federal and provincial tax rate increased to 26.7 per cent in 2016 from 26.1 per cent in 2015, reflecting the impact of an entire year of the Alberta corporate tax rate increase from 10 to 12 per cent effective July 1, 2015, as compared to a pro-rated Alberta corporate tax rate increase for half the year in the 2015 comparable periods.

	December 31, 2016	December 31, 2015
Deferred tax liabilities:		
PP&E in excess of tax basis	806.0	709.0
Risk management contracts	48.4	109.5
Deferred tax assets:		
ARO	(146.0)	(152.3)
Long-term debt	(29.1)	(34.2)
Risk management contracts	(7.7)	(0.6)
Long-term incentive compensation expense	(13.0)	(10.4)
Unrecognized deferred tax assets <sup>(1)</sup>	29.7	34.2
Other	(4.0)	(7.1)
Deferred taxes	684.3	648.1

(1) The unrecognized deferred tax assets relate to unrealized foreign exchange losses of \$29.1 million and realized capital losses of \$0.6 million (\$34.2 million and \$nil for 2015, respectively).



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

	December 31, 2015	Recognized in Profit or Loss	Recognized in Business Combination	December 31, 2016
	Asset (Liability)	Asset (Liability)	Asset (Liability)	Asset (Liability)
PP&E	(709.0)	(76.8)	(20.2)	(806.0)
Risk management contracts	(108.9)	68.2	—	(40.7)
Long-term debt	34.2	(5.1)	—	29.1
ARO	152.3	(6.3)	—	146.0
Long-term incentive compensation expense	10.4	2.6	—	13.0
Unrecognized deferred tax asset on unrealized and realized foreign exchange losses	(34.2)	4.5	—	(29.7)
Other	7.1	(3.1)	—	4.0
<b>Total</b>	<b>(648.1)</b>	<b>(16.0)</b>	<b>(20.2)</b>	<b>(684.3)</b>

At December 31, 2016, the petroleum and natural gas properties and facilities owned by ARC have an approximate federal tax basis of \$1.7 billion (\$2.3 billion in 2015) available for future use as deductions from taxable income.

The following is a summary of ARC's estimated ARC tax pools as at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Canadian oil and gas property expense	175.2	595.2
Canadian development expense	738.1	877.1
Undepreciated capital cost	722.2	791.4
Other	15.1	21.8
<b>Total federal tax pools</b>	<b>1,650.6</b>	<b>2,285.5</b>
<b>Additional Alberta tax pools</b>	<b>6.5</b>	<b>8.6</b>

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

Effective March 1, 2016, ARC wound up 1504793 Alberta Ltd. resulting in the dissolution of the partnership. All transactions were executed on a tax deferred basis using provisions under the Federal Income Tax Act. As a result, there are no longer any temporary differences associated with the investment in the partnership at December 31, 2016 (taxable temporary differences of \$2.3 billion at December 31, 2015).

## 18. SHAREHOLDERS' CAPITAL

ARC is authorized to issue an unlimited number of no par value common shares and 50 million preferred shares without nominal or par value. Common shares carry one vote per share and the right to any dividends declared. Preferred shares may be issued in series with rights and conditions to be determined by ARC's Board of Directors prior to issuance and subject to the Company's articles. There are no outstanding preferred shares as at December 31, 2016 or 2015.

(thousands of shares)	Year Ended December 31, 2016	Year Ended December 31, 2015
Common shares, beginning of year	347,084	319,439
Equity offering	—	17,859
Restricted shares issued pursuant to the LTRSA <sup>(1)</sup> Plan	99	103
Forfeited restricted shares pursuant to the LTRSA Plan	(3)	(7)
Unvested restricted shares held in trust pursuant to the LTRSA Plan	(96)	(96)
Dividend Reinvestment Plan	4,756	7,563
Stock Dividend Program	1,398	2,224
Issued on exercise of share options	49	—
Cancelled shares	—	(1)
Common shares, end of year	353,287	347,084

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

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

(thousands of shares)	Year Ended December 31, 2016	Year Ended December 31, 2015
Weighted average common shares	350,907	340,542
Dilutive impact of share-based compensation <sup>(1)</sup>	404	—
Weighted average common shares, diluted	351,311	340,542

(1) For the year ended December 31, 2016, 1.0 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (3.2 million for the year ended December 31, 2015).

Dividends declared for the year ended December 31, 2016 were \$0.65 per common share, (\$1.20 for the year ended December 31, 2015).

On January 16, 2017, the Board of Directors declared a dividend of \$0.05 per common share designated as an eligible dividend, payable in cash or common shares under the Stock Dividend Program, to shareholders of record on January 31, 2017. The dividend payment date is February 15, 2017. Of the \$17.7 million in dividends payable at December 31, 2016 (\$34.7 million at December 31, 2015), \$0.2 million is payable in common shares under the Stock Dividend Program (\$4.5 million at December 31, 2015).

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

## 19. SHARE-BASED COMPENSATION PLANS

### RSU and PSU Plan

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

Upon vesting of the RSUs, the plan participant receives a cash payment based on the fair value of the underlying share units plus all dividends accrued since the grant date. The cash compensation of the PSUs issued upon vesting is further dependent upon an adjustment to the final number of PSU awards that eventually vest based on a

performance multiplier. The performance multiplier is calculated at the time of payment using the percentile rank of ARC's total shareholder return relative to its peers and can result in cash compensation issued upon vesting of the PSUs ranging from zero to two times the value of the PSUs originally granted.

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

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

#### Long-term Incentive Plans

The following table summarizes the RSU, PSU and DSU movement for the years ended December 31, 2016 and 2015:

(number of units, thousands)	RSUs	PSUs <sup>(1)</sup>	DSUs
Balance, January 1, 2015	625	1,513	220
Granted	464	702	97
Distributed	(294)	(493)	—
Forfeited	(65)	(145)	—
Balance, December 31, 2015	730	1,577	317
Granted	387	676	95
Distributed	(297)	(454)	—
Forfeited	(130)	(91)	—
Balance, December 31, 2016	690	1,708	412

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
G&A expenses	28.9	2.4
Operating expenses	4.0	1.6
PP&E	2.8	1.0
Total compensation charges	35.7	5.0
Cash payments	25.8	25.3

At December 31, 2016, \$25.0 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet (\$20.0 million at December 31, 2015) and \$24.6 million was included in the long-term incentive compensation liability (\$19.5 million at December 31, 2015). A recoverable amount of \$0.5 million was included in accounts receivable at December 31, 2016 (\$0.3 million at December 31, 2015).

#### Share Option Plan

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

The changes in total share options outstanding and related weighted average exercise prices for the years ended December 31, 2016 and 2015 were as follows:

	Share Options (number of units, thousands)	Weighted Average Exercise Price (\$)
Balance, January 1, 2015	2,505	23.43
Granted	999	21.86
Forfeited	(283)	22.30
Balance, December 31, 2015	3,221	21.95
Granted	955	21.13
Exercised	(49)	16.39
Forfeited	(155)	21.62
Balance, December 31, 2016	3,972	21.22
Exercisable, December 31, 2016	667	17.77

The following table summarizes information regarding share options outstanding at December 31, 2016:

Range of exercise price per common share (\$)	Number of share options outstanding (thousands)	Weighted average exercise price per share for options outstanding (\$)	Weighted average remaining term (years)	Number of share options exercisable (thousands)	Weighted average exercise price per share for options exercisable (\$)
15.30 - 20.00	766	15.30	2.47	362	15.30
20.01 - 25.00	2,724	21.25	4.95	305	20.71
25.01 - 30.44	482	30.44	4.47	—	—
Total	3,972	21.22	4.42	667	17.77

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Grant date share price (\$)	21.13	21.86
Exercise price (\$) <sup>(1)</sup>	21.13	21.86
Expected annual dividends (\$)	0.60	1.20
Expected volatility (%) <sup>(2)</sup>	33.00	37.00
Risk-free interest rate (%)	0.88	1.40
Expected life of share option <sup>(3)</sup>	5.5 to 6 years	5.5 to 6 years
Fair value per share option (\$)	3.70	5.68

(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 \$4.4 million relating to the share option plan for the year ended December 31, 2016 (\$3.4 million for the year ended December 31, 2015). During the year ended December 31, 2016, \$0.5 million of share option compensation charges were capitalized to PP&E (\$0.4 million for the year ended December 31, 2015).

#### LTRSA Plan

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

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

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

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

The estimated fair value of LTRSAs is determined as the weighted average trading price of ARC common shares for the five days immediately preceding the grant date. The changes in total LTRSA outstanding and related fair value per restricted share for the years ended December 31, 2016 and 2015 were as follows:

	<b>LTRSA (number of units, thousands)</b>	<b>Fair Value per Restricted Share (\$)</b>
Balance, January 1, 2015	—	—
Granted	100	21.56
Forfeited	(7)	21.86
Balance, December 31, 2015	93	21.54
Granted	<b>94</b>	<b>21.13</b>
Forfeited	<b>(3)</b>	<b>21.86</b>
Balance, December 31, 2016	<b>184</b>	<b>21.33</b>

ARC recorded G&A expenses of \$1.1 million relating to the LTRSA Plan during the year ended December 31, 2016 (\$0.9 million for the year ended December 31, 2015). At December 31, 2016, \$nil compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet (\$nil at December 31, 2015).

## 20. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at December 31, 2016:

	<b>Payments Due by Period</b>				<b>Total</b>
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Beyond 5 Years</b>	
Debt repayments <sup>(1)</sup>	51.5	158.4	308.7	507.4	1,026.0
Interest payments <sup>(2)</sup>	43.9	76.3	57.6	44.2	222.0
Reclamation fund contributions <sup>(3)</sup>	3.1	6.0	5.5	42.9	57.5
Purchase commitments	11.1	7.8	0.5	—	19.4
Transportation commitments	84.6	141.3	118.9	308.9	653.7
Operating leases	15.7	28.9	27.3	30.8	102.7
Risk management contract premiums <sup>(4)</sup>	6.4	0.6	—	—	7.0
<b>Total contractual obligations and commitments</b>	<b>216.3</b>	<b>419.3</b>	<b>518.5</b>	<b>934.2</b>	<b>2,088.3</b>

(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 16). As the premiums are related to the underlying risk management contracts, they have been recorded at fair market value at December 31, 2016 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.

## 21. RELATED PARTIES

### Key Management Personnel Compensation

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Short-term benefits	6.8	7.2
Share-based compensation	20.5	1.6
Total key management personnel compensation	27.3	8.8

## 22. SUPPLEMENTAL DISCLOSURES

### Presentation in the Statements of Income

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating	35.0	35.8
G&A	77.6	60.3
Total employee compensation expenses	112.6	96.1

### Cash Flow Statement Presentation

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Change in Non-Cash Working Capital</b>		
Accounts receivable	(48.1)	48.4
Accounts payable and accrued liabilities	25.4	(203.0)
Prepaid expenses	2.2	—
Total	(20.5)	(154.6)
Relating to:		
Operating activities	2.1	(62.4)
Investing activities	(22.6)	(92.2)
Total change in non-cash working capital	(20.5)	(154.6)

	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Other Non-Cash Items</b>		
Non-cash lease inducement	(1.7)	(1.7)
Loss (gain) on short-term investments	(1.2)	0.4
Share-based compensation expense	4.8	3.6
Total other non-cash items	1.9	2.3
	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Net Change in Other Liabilities</b>		
Long-term incentive compensation liability	5.1	(9.6)
Risk management contracts	3.2	(0.1)
ARO	(13.0)	(12.3)
Total net change in other liabilities	(4.7)	(22.0)



## FORWARD-LOOKING INFORMATION AND STATEMENTS

This Annual Report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words “expect,” “anticipate,” “continue,” “estimate,” “objective,” “ongoing,” “may,” “will,” “project,” “should,” “believe,” “plans,” “intends,” “strategy,” and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this Annual Report contains forward-looking information and statements pertaining to the following: the recognition of significant additional reserves, the recognition of significant reserves and resources, the volumes and estimated value of ARC’s oil and gas reserves; the life of ARC’s reserves; the volume and product mix of ARC’s oil and gas production; future oil and natural gas prices 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 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 necessary 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.

This Annual Report also contains forward-looking information and statements found in the management’s discussion and analysis found on pages 14 through 62 of this Annual Report. All such forward-looking information and statements contained therein is qualified in their entirety by the forward-looking statement advising contained on page 62 of this Annual Report.

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

This Annual Report describes certain information in our news releases dated February 8, 2017 entitled, "ARC Resources Ltd. Announces Fourth Quarter and Year-end 2016 Results as it Increases Capital Investment in Arc's Multi-Year, Large-Scale Development Projects at Dawson, Parkland/Tower, and Sunrise" and "ARC Resources Ltd. Replaces 260 per cent Of Produced Reserves Through Development Activities In 2016" 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](http://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, 2016, which is available on our SEDAR profile at [www.SEDAR.com](http://www.SEDAR.com). Readers should also refer to the definitions of oil and gas reserves and resources found under "Glossary" in this Annual Report.

The reserves data set forth in this Annual Report is based upon an evaluation by GLJ Petroleum Consultants Ltd. ("GLJ") with an effective date of December 31, 2016 using forecast prices and costs. The reserves evaluation was prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Crude oil, natural gas and natural gas liquids benchmark reference pricing, and inflation and exchange rates used in the evaluation are based on GLJ's January 1, 2017 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, 2016 and is based on GLJ's forecast pricing as at January 1, 2017.

All amounts in this Annual Report are stated in Canadian dollars unless otherwise specified. In accordance with Canadian practice, production volumes and revenues are reported on a company gross basis, before deduction of Crown and other royalties, and without including any royalty interest, unless otherwise stated. As noted above, unless otherwise specified, all reserves volumes in this Annual Report (and all information derived therefrom) are based on "company gross reserves" using forecast prices and costs. Our oil and gas reserves statement for the year ended December 31, 2016, which includes complete disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, is contained within our Annual Information Form which is available on our SEDAR profile at [www.SEDAR.com](http://www.SEDAR.com). In relation to the disclosure of estimates for any properties, such estimates for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.

### **NOTICE TO U.S. READERS**

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

## GLOSSARY

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

### Measurement

<b>bbls</b>	barrels
<b>bbls/d</b>	barrels per day
<b>Mbbls</b>	thousand barrels
<b>MMbbls</b>	million barrels
<b>boe <sup>(1)</sup></b>	barrels of oil equivalent
<b>boe/d <sup>(1)</sup></b>	barrels of oil equivalent per day
<b>Mboe <sup>(1)</sup></b>	thousand barrels of oil equivalent
<b>MMboe <sup>(1)</sup></b>	million barrels of oil equivalent
<b>Mcf</b>	thousand cubic feet
<b>Mcf/d</b>	thousand cubic feet per day
<b>MMcf</b>	million cubic feet
<b>MMcf/d</b>	million cubic feet per day
<b>Bcf</b>	billion cubic feet
<b>MMbtu</b>	million British Thermal Units
<b>GJ</b>	gigajoule

(1) We have adopted the standard of 6 Mcf: 1 barrel when converting natural gas to boe. Boes may be misleading, particularly if used in isolation.

A boe conversion ratio of 6 Mcf to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value..

## GLOSSARY CONTINUED

### FINANCIAL AND BUSINESS ENVIRONMENT

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

## DEFINITIONS OF OIL AND GAS RESOURCES AND RESERVES

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

**Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

**Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

**Possible Reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

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

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

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

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

# CORPORATE & SHAREHOLDER INFORMATION

## DIRECTORS

**Harold N. Kvisle** <sup>(1)</sup>  
Chairman

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

**David R. Collyer** <sup>(2) (3)</sup>

**John P. Dielwart** <sup>(2) (4)</sup>

**Fred J. Dymont** <sup>(1) (3)</sup>

**Timothy J. Hearn** <sup>(1) (5)</sup>

**James C. Houck** <sup>(4) (6)</sup>

**Kathleen O'Neill** <sup>(4) (6)</sup>

**Herbert C. Pinder Jr.** <sup>(1) (5)</sup>

**William G. Sembo** <sup>(2) (5)</sup>

**Nancy L. Smith** <sup>(3) (6)</sup>

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

## OFFICERS

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

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

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

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

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

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

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

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

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

**Armin Jahangiri**  
Vice President, Operations

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

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

**Grant A. Zawalsky**  
Corporate Secretary

## EXECUTIVE OFFICE

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**F** 403.503.8609  
**W** [www.arcresources.com](http://www.arcresources.com)  
**E** [ir@arcresources.com](mailto:ir@arcresources.com)

## TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
600, 530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8  
**T** 403.267.6800

## AUDITORS

**PricewaterhouseCoopers LLP**  
Calgary, Alberta

## ENGINEERING CONSULTANTS

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

## LEGAL COUNSEL

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

## CORPORATE CALENDAR 2017

**May 3, 2017**  
Q1 2017 Results

**May 4, 2017**  
Annual General Meeting

**August 3, 2017**  
Q2 2017 Results

**November 9, 2017**  
Q3 2017 Results

## STOCK EXCHANGE LISTING

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

## INVESTOR INFORMATION

Visit our website at  
**[www.arcresources.com](http://www.arcresources.com)**  
or contact:  
**Investor Relations**  
**T** 403.503.8600 or  
**TOLL FREE** 1.888.272.4900



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