ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(Cdn$ millions)	**March 31, 2018**	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	**257.9**	220.2
Accounts receivable (Note 5)	**125.3**	132.7
Prepaid expenses	**17.5**	18.1
Risk management contracts (Note 11)	**108.2**	146.6
Assets held for sale (Note 7)	**254.6**	301.1
	763.5	818.7
Reclamation fund	**35.4**	36.7
Risk management contracts (Note 11)	**141.5**	148.4
Exploration and evaluation assets (Notes 3 and 6)	**463.7**	418.9
Property, plant and equipment (Note 7)	**4,583.4**	4,553.1
Goodwill	**248.2**	248.2
Total assets	**6,235.7**	6,224.0
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**186.0**	170.0
Current portion of long-term debt (Note 8)	**76.1**	73.9
Current portion of asset retirement obligations (Note 9)	**16.0**	16.0
Dividends payable (Note 12)	**17.7**	17.7
Risk management contracts (Note 11)	**1.0**	—
Liabilities associated with assets held for sale (Note 9)	**183.2**	219.7
	480.0	497.3
Risk management contracts (Note 11)	**—**	0.2
Long-term debt (Note 8)	**848.9**	837.4
Long-term incentive compensation liability (Note 14)	**17.1**	17.5
Other deferred liabilities	**11.8**	12.3
Asset retirement obligations (Note 9)	**380.3**	386.8
Deferred taxes	**825.7**	803.6
Total liabilities	**2,563.8**	2,555.1
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 12)	**4,658.5**	4,658.5
Contributed surplus	**23.2**	21.9
Deficit	**(1,009.6)**	(1,011.4)
Accumulated other comprehensive income (loss)	**(0.2)**	(0.1)
Total shareholders' equity	**3,671.9**	3,668.9
Total liabilities and shareholders' equity	**6,235.7**	6,224.0
Commitments and contingencies (Note 15)		

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

For the three months ended March 31

(Cdn$ millions, except per share amounts)	2018	2017 [1]
Commodity sales from production (Notes 3 and 13)	**340.2**	306.4
Royalties	**(28.9)**	(25.8)
Sales of commodities purchased from third parties (Note 3)	**29.9**	28.0
Revenue from commodity sales	**341.2**	308.6
Interest income	**1.6**	2.1
Other income (Note 3)	**1.8**	1.4
Gain (loss) on risk management contracts (Note 11)	**(17.5)**	134.5
Total revenue, interest and other income and gain (loss) on risk management contracts	**327.1**	446.6
Transportation	**30.8**	25.0
Commodities purchased from third parties (Note 3)	**30.0**	27.4
Operating (Note 3)	**74.4**	71.0
Exploration and evaluation (Notes 3 and 6)	**0.7**	—
General and administrative (Note 3)	**20.4**	11.9
Interest and financing charges	**10.7**	11.7
Accretion of asset retirement obligations (Note 9)	**3.6**	3.2
Depletion, depreciation, amortization and impairment (Note 7)	**126.1**	113.5
Loss (gain) on foreign exchange	**25.2**	(8.5)
Gain on short-term investments	**—**	(0.1)
Gain on disposal of petroleum and natural gas properties	**(80.1)**	—
Total expenses	**241.8**	255.1
Net income before income taxes	**85.3**	191.5
Provision for income taxes		
Current	**8.3**	13.5
Deferred	**22.1**	35.5
Total income taxes	**30.4**	49.0
Net income	**54.9**	142.5
Net income per share (Note 12)		
Basic	**0.16**	0.40
Diluted	**0.16**	0.40

(1) Refer to accompanying Note 3 for details on revised presentation of certain items in the unaudited condensed interim consolidated statement of income for the three months ended March 31, 2017.

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the three months ended March 31

(Cdn$ millions)	**2018**	2017
Net income	**54.9**	142.5
Other comprehensive income (loss)		
Items that may be reclassified into earnings, net of tax:		
Net unrealized gain (loss) on reclamation fund assets	**(0.1)**	(0.3)
Other comprehensive income (loss)	**(0.1)**	(0.3)
Comprehensive income	**54.8**	142.2

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

For the three months ended March 31

(Cdn$ millions)	Shareholders' Capital (Note 12)	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
December 31, 2016	4,654.9	17.6	(1,188.0)	0.3	3,484.8
Net income	—	—	142.5	—	142.5
Other comprehensive income (loss)	—	—	—	(0.3)	(0.3)
Total comprehensive income (loss)	—	—	142.5	(0.3)	142.2
Shares issued pursuant to the Dividend Reinvestment Plan and Stock Dividend Program	3.0	—	—	—	3.0
Recognized under share-based compensation plans (Note 14)	0.1	0.9	—	—	1.0
Dividends declared	—	—	(53.1)	—	(53.1)
March 31, 2017	4,658.0	18.5	(1,098.6)	—	3,577.9
December 31, 2017	4,658.5	21.9	(1,011.4)	(0.1)	3,668.9
Net income	**—**	**—**	**54.9**	**—**	**54.9**
Other comprehensive income (loss)	**—**	**—**	**—**	**(0.1)**	**(0.1)**
Total comprehensive income (loss)	**—**	**—**	**54.9**	**(0.1)**	**54.8**
Recognized under share-based compensation plans (Note 14)	**—**	**1.3**	**—**	**—**	**1.3**
Dividends declared	**—**	**—**	**(53.1)**	**—**	**(53.1)**
March 31, 2018	**4,658.5**	**23.2**	**(1,009.6)**	**(0.2)**	**3,671.9**

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the three months ended March 31

(Cdn$ millions)	**2018**	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	**54.9**	142.5
Add items not involving cash:		
Unrealized loss (gain) on risk management contracts	**46.1**	(110.1)
Accretion of asset retirement obligations (Note 9)	**3.6**	3.2
Depletion, depreciation, amortization and impairment (Note 7)	**126.1**	113.5
Exploration and evaluation (Notes 3 and 6)	**0.7**	—
Unrealized loss (gain) on foreign exchange	**26.9**	(7.7)
Gain on disposal of petroleum and natural gas properties	**(80.1)**	—
Deferred tax	**22.1**	35.5
Other (Note 16)	**0.7**	0.3
Net change in other liabilities (Note 16)	**(6.0)**	(21.0)
Change in non-cash working capital (Note 16)	**4.6**	35.3
Cash flow from operating activities	**199.6**	191.5
CASH FLOW USED IN FINANCING ACTIVITIES		
Repayment of senior notes	**(13.0)**	(13.4)
Issuance of common shares	**—**	0.1
Cash dividends paid	**(53.1)**	(50.0)
Cash flow used in financing activities	**(66.1)**	(63.3)
CASH FLOW USED IN INVESTING ACTIVITIES		
Acquisition of petroleum and natural gas properties (Note 7)	**(0.2)**	(0.2)
Disposal of petroleum and natural gas properties (Note 7)	**98.3**	—
Property, plant and equipment development expenditures (Note 7)	**(169.1)**	(245.0)
Exploration and evaluation asset expenditures (Note 6)	**(45.2)**	(15.3)
Net reclamation fund withdrawals	**1.2**	1.9
Change in non-cash working capital (Note 16)	**19.2**	98.4
Cash flow used in investing activities	**(95.8)**	(160.2)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**37.7**	(32.0)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**220.2**	222.2
CASH AND CASH EQUIVALENTS, END OF PERIOD	**257.9**	190.2
The following are included in cash flow from operating activities:		
Income taxes paid in cash	**9.2**	8.2
Interest paid in cash	**14.8**	15.4

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. STRUCTURE OF THE BUSINESS

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

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

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with ARC's audited consolidated financial statements for the year ended December 31, 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 as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies" of ARC's audited consolidated financial statements for the year ended December 31, 2017. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in Note 3 "Changes in Accounting Policies", and for income taxes. Income taxes on net income (loss) in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual net income (loss). There have been no significant changes to the use of estimates or judgments since December 31, 2017, except as noted in Note 4 "Management Judgments and Estimation Uncertainty".

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.

These financial statements were authorized for issue by the Board of Directors on May 2, 2018.

3. CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

Effective January 1, 2018, ARC retrospectively adopted IFRS 15. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

ARC principally generates revenue from the sale of commodities, which include crude oil, natural gas, condensate and natural gas liquids (“NGLs”). Revenue associated with the sale of commodities is recognized when control is transferred from ARC to its customers. ARC’s commodity sale contracts represent a series of distinct transactions. ARC considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- ARC has transferred title and physical possession of the commodity to the buyer;
- ARC has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- ARC has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for ARC’s commodity sales contracts are on the 25th of the month following delivery. ARC does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, ARC does not adjust its revenue transactions for the time value of money.

Revenue represents ARC's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

ARC enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. The Company also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

Contract modifications with ARC's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

At times, ARC may exchange like commodities with other entities to facilitate ARC's sales to its customers. These non-monetary exchanges lack commercial substance and do not give rise to separate recognition of revenue and expense items in the statements of income.

In its retrospective adoption of IFRS 15, ARC applied a practical expedient that allows ARC to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2017 and were previously accounted for under IAS 18.

The adoption of IFRS 15 did not result in any adjustments to the amounts recognized in ARC's consolidated financial statements for the year ended December 31, 2017. Additional disclosures regarding ARC's reported revenue from contracts with customers as required by IFRS 15 for the periods ended March 31, 2018 and 2017 are included in Note 13 "Commodity Sales from Production".

In conjunction with the Company's adoption of IFRS 15, the Company completed a review of the financial statement presentation of its marketing and revenue transactions. At times, ARC purchases commodity products from third parties to fulfill sales commitments and to utilize in blending activities; ARC subsequently sells these products to its customers. It was determined that the margins derived from these transactions which have previously been presented on a net basis within revenue are more appropriately presented as separate revenue and expense items. Prior period comparative figures have been reclassified in these condensed interim consolidated statements of income ("the statements of income") for comparability with the current period presentation for these items. There is no resultant impact on the net income, comprehensive income, cash flow, or financial position of the Company from this change. The effect of the reclassification on the prior period is presented below:

	Three Months Ended March 31, 2017
Decrease in Sales of crude oil, natural gas, condensate, NGLs and other income [1]	(0.6)
Increase in Sales of commodities purchased from third parties	28.0
Increase in Commodities purchased from third parties	27.4
Net income (loss)	—

((1) Refers to previous presentation in the consolidated statements of income.

In its review, ARC also determined that certain income-generating transactions had been presented within operating expense and general and administrative ("G&A") expense and are more appropriately presented as other income. Prior period comparative figures have been reclassified in the statements of income for comparability with the current period presentation for these items. There is no resultant impact on the net income, comprehensive income, cash flow or financial position of the Company from this change. The effect of the reclassification on the prior period is presented below:

	Three Months Ended March 31, 2017
Increase in Other income (1)	1.3
Increase in Operating expense	1.1
Increase in G&A	0.2
Net income (loss)	—

(1) Other income was previously presented as Sales of crude oil, natural gas, condensate, NGLs and other income in the consolidated statements of income.

IFRS 9 *Financial Instruments* ("IFRS 9")

Effective January 1, 2018, ARC retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 *Financial Instruments: Disclosures*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in ARC's consolidated financial statements for the year ended December 31, 2017.

Classification and Measurement of FInancial Instruments
ARC measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets is determined by the context of ARC's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into three categories: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). ARC does not employ hedge accounting for its risk management contracts currently in place.

Amortized Cost
ARC classifies its cash and cash equivalents, short-term investments, accounts receivable and accrued liabilities, dividends payable, and long-term debt as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. The carrying values of ARC's cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their fair values.

FVTOCI
ARC classifies its reclamation fund assets as measured at FVTOCI as the contractual cash flows received from the debt instruments are solely payments of principal and interest and are held within a business model whose objective is both to hold the financial assets to collect the contractual cash flows as well as to sell the financial assets. Financial assets measured at FVTOCI are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Transaction costs related to the purchase of financial assets measured at FVTOCI, as well as interest, impairment and foreign currency gains or losses are recognized in the statements of income and all other gains or losses are recognized in OCI. Upon derecognition of the financial asset, amounts in OCI are reclassified to the statements of income.

FVTPL
ARC classifies its risk management contracts as measured at FVTPL. All of ARC's risk management contracts currently in place are derivatives and are therefore measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statements of income. ARC does not have any financial assets or financial liabilities designated as measured at FVTPL.

The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. The classification of cash and cash equivalents and short-term investments were the only instruments with changes in their classification. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets. The following table summarizes the classification categories for ARC's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

Financial Assets	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Held-for-trading (FVTPL)	Amortized cost
Short-term investments	Held-for-trading (FVTPL)	Amortized cost
Accounts receivable	Loans and receivables (Amortized cost)	Amortized cost
Risk management contracts	Held-for-trading (FVTPL)	FVTPL
Reclamation fund	Available-for-sale (FVTOCI)	FVTOCI
Financial Liabilities	**IAS 39**	**IFRS 9**
Accounts payable and accrued liabilities	Other financial liabilities (Amortized cost)	Amortized cost
Dividends payable	Other financial liabilities (Amortized cost)	Amortized cost
Risk management contracts	Held-for-trading (FVTPL)	FVTPL
Long-term debt	Other financial liabilities (Amortized cost)	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, ARC's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable. The assets in ARC's reclamation fund are considered to have low credit risk and 12 months of ECLs is recognized against these instruments upon initial recognition. ARC's cash and cash equivalents and short-term investments consist of cash and guaranteed investment certificates. ECL allowances have not been recognized for these financial assets due to the virtual certainty associated with their collectability.

Within ARC's accounts receivable, the Company assesses the lifetime ECL applicable to its commodity product sales receivables and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. Lifetime ECLs are a probability-weighted estimate of all possible default events over the expected life of a financial asset and are measured as the difference between the present value of the cash flows due to ARC and the cash flows the Company expects to receive. In making an assessment as to whether ARC's financial assets are credit-impaired, the Company considers bad debts that ARC has incurred historically, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, and the term to maturity of the specified receivable. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized within G&A expense in the statements of income.

Based on industry experience, the Company considered financial assets to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of collection pursuits outweigh the benefits of collection, ARC derecognizes the gross carrying amount of the asset and the associated allowance from the balance sheet.

There were no material adjustments to the carrying amounts of any of the Company's financial instruments following the adoption of IFRS 9. Additional disclosure related to ARC's financial assets required by IFRS is included in Note 5 "Financial Assets and Credit Risk".

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

On January 1, 2018, ARC made a change, on a retrospective basis, to its accounting policies for E&E assets to reflect the following:

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. ARC has certain E&E properties that have sales of petroleum products associated with production from test wells. These operating results are recognized in the consolidated statements of income (the "statements of income"). A depletion charge, recognized as E&E expenses, is recognized on these wells using a 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 cost plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs, excluding costs of any associated undeveloped land; 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.

Non-producing assets classified as E&E are not depleted.

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

There is no impact on the net income, comprehensive income, cash flow or financial position of the Company in prior periods as a result of this change.

FUTURE ACCOUNTING POLICIES

IFRS 16 *Leases* ("IFRS 16")

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

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 adopting IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. IFRS 16 will be applied by ARC on January 1, 2019. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on ARC's financial statements.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

On January 1, 2018, ARC conducted an analysis of its cash generating units ("CGUs") to determine if their composition was still reflective of ARC's core asset base and internal asset management. Following the analysis, it was determined that the original CGUs that were created on transition to IFRS no longer appropriately reflect ARC's current asset base for purposes of determining impairment. The divestment of several non-core properties and continued growth and development in concentrated areas has resulted in ARC's asset base primarily comprising Montney assets in British Columbia and Cardium assets in Alberta. ARC's marketing and infrastructure strategy demonstrates significant interdependence of ARC's properties and effective January 1, 2018 ARC's CGUs were realigned into three CGUs: Northeast British Columbia ("NEBC"), Northern Alberta ("NAB" which includes Pembina) and Redwater. At the time of realignment, ARC estimated the recoverable amounts of its new CGUs and compared them to the recoverable amounts of its previous CGUs and the respective carrying amounts and noted that no asset impairment or reversal of impairment would arise as a result of the realignment.

ARC performed an evaluation of indicators of potential impairment or reversal of impairment at March 31, 2018 as a result of decreases in the outlook of future natural gas prices since the time of the last impairment test on ARC's CGUs was conducted at June 30, 2017. ARC conducted tests of impairment on ARC's NAB and NEBC CGUs. The impairment test did not result in any impairment charges or recoveries being recognized on ARC's development and production assets.

The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by ARC’s independent reserve evaluator at December 31, 2017, updated using forward commodity price estimates at April 1, 2018 provided by ARC's independent reserve evaluator and adjusted for the net present value of the after-tax abandonment and reclamation costs on properties without proved plus probable oil and gas reserves, as well as the fair value of undeveloped land based on estimates provided by ARC’s independent land evaluator at December 31, 2017. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital ranging from 9.5 to 10.0 per cent, depending on the resource composition of the assets in the CGU and an inflation rate of two per cent.

	Edmonton Light Crude Oil	**WTI Oil**	**AECO Gas**	**NYMEX HH Gas**	**Cdn$/US$**
Year	**(Cdn$/bbl)** (1,2)	**(US$/bbl)** (1,2)	**(Cdn$/MMbtu)** (1,2)	**(US$/MMBtu)** (1,2)	**Exchange Rates** (1,2)
2018	75.31	63.67	2.17	2.81	0.78
2019	75.95	64.00	2.39	2.90	0.79
2020	76.25	65.00	2.72	3.20	0.80
2021	77.16	66.50	3.07	3.50	0.81
2022	79.27	69.00	3.34	3.70	0.82
2023	81.33	71.50	3.44	3.86	0.83
2024	84.34	74.00	3.51	3.94	0.83
2025	87.35	76.50	3.58	4.02	0.83
2026	90.47	79.09	3.66	4.10	0.83
2027	92.37	80.67	3.73	4.18	0.83
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.83

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

The fair value less costs of disposal value used to determine the recoverable amounts of the Northern Alberta CGU is classified as a Level 3 fair value measurement as certain key assumptions are not based on observable market data but, rather, Management's best estimates. Refer to Note 11 for information on fair value hierarchy classifications.

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

Although no impairment or reversal of impairment was recognized on ARC's development and production assets for the three months ended March 31, 2018, the following table demonstrates the effect of the assumed discount rate and the effect of forecast cash flow estimates on the after-tax reversal of impairment calculated in the Northern Alberta CGU. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and a five per cent decrease and five per cent increase in the forecast cash flow estimates. There would be no impairment or reversal of impairment for the remaining CGUs.

	Increase in Discount Rate of 1 per cent	**Decrease in Discount Rate of 1 per cent**	**Decrease in Cash Flow Estimates of 5 per cent**	**Increase in Cash Flow Estimates of 5 per cent**
Reversal of impairment (impairment) (net of tax)	(58.4)	59.9	(57.7)	51.1

5. 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 short-term investments, accounts receivable, reclamation fund assets and risk management contracts. However, default risk is considered very low for all of the Company’s financial instruments due to the external credit ratings of its counterparties and ARC's processes for selecting and monitoring credit-worthy counterparties. Most of ARC’s accounts receivable relate to crude oil and liquids and natural gas sales and are subject to typical industry credit risks. At March 31, 2018, 87 per cent of ARC's accounts receivable were for commodity sales (78 per cent at December 31, 2017), of which approximately 80 per cent (approximately 82 percent at December 31, 2017) were with customers who were considered to be investment-grade. (Refer to Note 10 "Capital Management" which discusses ARC's capital management objectives and policies.) ARC manages its credit risk as follows:

- by entering into sales contracts with only established, credit-worthy 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;
- by restricting cash equivalent investments, reclamation fund investments, and risk management transactions to counterparties that are not less than investment grade; and
- by subjecting all counterparties to regular credit reviews.

The majority of the credit exposure on accounts receivable at March 31, 2018 pertains to accrued sales revenue for March 2018 production volumes. ARC transacts with a number of crude oil and natural gas marketing companies and commodity end users (“commodity purchasers”), substantially all of which have investment-grade credit ratings. Commodity purchasers and marketing companies typically remit amounts to ARC by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production.

At March 31, 2018, ARC had one external customer that constituted more than 10 percent of commodity sales from production. Sales to this customer were $39.7 million for the three months ended March 31, 2018.

ARC’s allowance for doubtful accounts was $0.1 million as at March 31, 2018 ($0.1 million as at December 31, 2017). During the three months ended March 31, 2018, ARC recognized $0.1 million of expected credit loss in the statements of income ($nil for the three months ended March 31, 2017).

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 which point significant increase in credit risk exists. At March 31, 2018, $0.7 million of accounts receivable are past due, the balance of which are considered to be collectible ($5.7 million at December 31, 2017). The lifetime ECL allowances related to ARC’s commodity product sales receivables and joint venture receivables recognized in accounts receivable, as well as the 12-month expected credit loss allowance for reclamation fund assets were nominal as at and for the periods ended March 31, 2018 and 2017.

ARC's accounts receivable were aged as follows at March 31, 2018:

Accounts Receivable Aging	March 31, 2018	December 31, 2017
Current (less than 30 days)	**124.1**	125.9
31 - 60 days	**0.5**	1.1
61 - 90 days	**—**	—
Past due (more than 90 days)	**0.7**	5.7
December 31, 2017	**125.3**	132.7

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

6. EXPLORATION AND EVALUATION ("E&E") ASSETS

Carrying Amount	
Balance, December 31, 2017	418.9
Additions	**45.2**
Exploration and evaluation expenses	**(0.7)**
Change in asset retirement cost	**0.3**
Balance, March 31, 2018	**463.7**

At March 31, 2018, ARC evaluated its E&E assets for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no impairment was recorded on ARC's E&E assets.

Depletion of $0.7 million on certain producing E&E assets has been recognized in E&E expenses for the three months ended March 31, 2018 (nil for the three months ended March 31, 2017).

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

Cost	Development and Production Assets	Administrative Assets	Total
Balance, December 31, 2017	7,719.1	73.2	7,792.3
Additions	**168.6**	**0.6**	**169.2**
Acquisitions	**0.2**	**—**	**0.2**
Change in asset retirement cost	**(6.1)**	**—**	**(6.1)**
Assets reclassified as held for sale	**(3.5)**	**—**	**(3.5)**
Other	**0.1**	**—**	**0.1**
Balance, March 31, 2018	**7,878.4**	**73.8**	**7,952.2**
Accumulated Depletion, Depreciation and Amortization ("DD&A") and Impairment			
Balance, December 31, 2017	(3,193.9)	(45.3)	(3,239.2)
DD&A	**(124.3)**	**(1.4)**	**(125.7)**
Accumulated DD&A and impairment reclassified as held for sale and disposed in period	**(3.8)**	**—**	**(3.8)**
Other	**(0.1)**	**—**	**(0.1)**
Balance, March 31, 2018	**(3,322.1)**	**(46.7)**	**(3,368.8)**
Carrying Amounts			
Balance, December 31, 2017	4,525.2	27.9	4,553.1
Balance, March 31, 2018	**4,556.3**	**27.1**	**4,583.4**

For the three months ended March 31, 2018, $7.9 million of direct and incremental G&A expenses were capitalized to PP&E ($7.3 million for the three months ended March 31, 2017). At March 31, 2018, future development costs of $3.2 billion were included in the determination of DD&A for the three months ended March 31, 2018 ($2.8 billion at March 31, 2017).

Assets held for sale	
Balance, December 31, 2017	301.1
Additions	**7.3**
Impairment	**(0.4)**
Disposals	**(53.4)**
Balance, March 31, 2018	**254.6**

The assets held for sale had associated liabilities of $183.2 million at March 31, 2018 ($219.7 million at December 31, 2017), consisting of related asset retirement obligations ("ARO"). The assets held for sale are expected to be divested in 2018.

During the three months ended March 31, 2018, ARC disposed of certain non-core assets located in Alberta for net proceeds of $8.9 million, subject to post-closing adjustments. These assets were classified as held for sale at December 31, 2017. Immediately prior to classifying the assets as held for sale, ARC conducted a review of the assets' recoverable amounts and recognized an impairment charge of $2.8 million in DD&A and impairment in the statements of income for the year ended December 31, 2017. A further impairment charge of $0.4 million was recognized in DD&A and impairment in the statements of income for the three months ended March 31, 2018.

Also during the three months ended March 31, 2018, ARC disposed of certain non-core assets located in British Columbia for net proceeds of $90.9 million. A gain on disposition of $79.2 million was recorded in the statements of income for the three months ended March 31, 2018.

8. LONG-TERM DEBT

	US $ Denominated		**Canadian $ Amount**	
	March 31, 2018	December 31, 2017	**March 31, 2018**	December 31, 2017
Senior notes				
Master Shelf Agreement				
4.98% US$ note	**10.0**	20.0	**12.9**	25.0
3.72% US$ note	**150.0**	150.0	**193.5**	187.8
2009 note issuance				
8.21% US$ note	**28.0**	28.0	**36.1**	35.1
2010 note issuance				
5.36% US$ note	**150.0**	150.0	**193.5**	187.8
2012 note issuance				
3.31% US$ note	**48.0**	48.0	**62.0**	60.1
3.81% US$ note	**300.0**	300.0	**387.0**	375.5
4.49% Cdn$ note	**N/A**	N/A	**40.0**	40.0
Total long-term debt outstanding	**686.0**	696.0	**925.0**	911.3
Long-term debt due within one year			**76.1**	73.9
Long-term debt due beyond one year			**848.9**	837.4

At March 31, 2018, the fair value of all senior notes is $916.6 million ($922.1 million as at December 31, 2017), compared to a carrying value of $925.0 million ($911.3 million as at December 31, 2017). At March 31, 2018, ARC was in compliance with all of its debt covenants.

9. ASSET RETIREMENT OBLIGATIONS

ARC has estimated the net present value of its total ARO to be $396.3 million as at March 31, 2018 ($402.8 million at December 31, 2017) based on a total future undiscounted liability of $963.6 million ($1,075.8 million at December 31, 2017). Management estimates that these payments are expected to be made over the next 60 years with the majority of payments being made in years 2067 to 2078. The Bank of Canada's long-term risk-free bond rate of 2.2 per cent (2.3 per cent at December 31, 2017) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2017) were used to calculate the present value of ARO at March 31, 2018.

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

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Balance, beginning of period	402.8	378.9
Development activities	**1.4**	10.5
Change in estimates (1)	**(13.9)**	50.6
Change in discount rate	**6.3**	19.5
Settlement of obligations	**(5.6)**	(19.8)
Accretion	**3.6**	13.1
Acquisitions and business combinations	**0.4**	—
Dispositions	**(0.5)**	(1.4)
Reclassified as liabilities associated with assets held for sale	**1.8**	(48.6)
Balance, end of period	**396.3**	402.8
Expected to be incurred within one year	**16.0**	16.0
Expected to be incurred beyond one year	**380.3**	386.8

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

10. CAPITAL MANAGEMENT

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

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

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

ARC manages its capital through:

- common shares and
- net debt.

When evaluating ARC's capital structure, Management's long-term strategy is to keep its net debt balance to a ratio of between one to 1.5 times annualized funds from operations and less than 20 per cent of total market capitalization. At March 31, 2018, ARC's net debt was 0.9 times its annualized funds from operations.

Funds from Operations

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

Funds from operations for the three months ended March 31, 2018 and 2017 is calculated as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Funds from operations	**201.0**	177.2
Net change in other liabilities (Note 16)	**(6.0)**	(21.0)
Change in non-cash operating working capital (Note 16)	**4.6**	35.3
Cash flow from operating activities	**199.6**	191.5

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.

	March 31, 2018	March 31, 2017
Long-term debt (1)	**925.0**	1,005.0
Accounts payable and accrued liabilities	**186.0**	254.9
Dividends payable	**17.7**	17.7
Cash and cash equivalents, accounts receivable, prepaid expenses and short-term investments	**(400.7)**	(776.2)
Net debt	**728.0**	501.4
Shares outstanding (millions) (2)	**353.5**	353.4
Share price ($) (3)	**14.04**	19.00
Market capitalization	**4,963.1**	6,714.6
Net debt	**728.0**	501.4
Total capitalization	**5,691.1**	7,216.0
Net debt as a percentage of total capitalization (%)	**12.8**	6.9
Net debt to funds from operations (ratio)	**0.9**	0.7

(1) Includes current portion of long-term debt at March 31, 2018 and 2017 of $76.1 million and $51.1 million, respectively.
(2) Basic shares outstanding as at March 31, 2018 and 2017, respectively.
(3) TSX closing price as at March 31, 2018 and 2017, respectively.

11. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

ARC's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, risk management contracts, the reclamation fund, accounts payable and accrued liabilities, dividends payable, and long-term debt.

ARC’s financial instruments that are carried at fair value on the unaudited condensed interim consolidated balance sheets (the "balance sheets") include cash and cash equivalents, short-term investments, risk management contracts, and the reclamation fund. The fair value of long-term debt is disclosed in Note 8 "Long-Term Debt". To estimate the fair value of these 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.

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 the reclamation fund are classified as Level 1 measurements 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.

ARC determines whether transfers have occurred between levels in the hierarchy by reassessing its hierarchy classifications at each reporting date based on the lowest level input that is significant to the fair value measurement as a whole. Adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. The classification of cash and cash equivalents and short-term investments were the only instruments with changes in their financial asset measurement categories under the new standard. See Note 3 "Changes in Accounting Policies" for details of the impact of the adoption of these accounting policies on the financial statements.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate their fair values due to the short-term nature of these instruments.

Financial Assets and Financial Liabilities Subject to Offsetting

ARC's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets in all circumstances. ARC manages these contracts on the basis of its net exposure to market risks and includes an assessment of the associated credit risk based on counterparty risk and own credit risk for the net amounts payable or receivable. Therefore, the fair value is measured consistently with how market participants would price the net risk exposure at the reporting date under current market conditions.

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at March 31, 2018 and December 31, 2017:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset in Balance Sheet	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet
As at March 31, 2018					
Risk management contracts					
Current asset	**169.6**	**(60.8)**	**108.8**	**(0.6)**	**108.2**
Long-term asset	**155.0**	**(12.7)**	**142.3**	**(0.8)**	**141.5**
Current liability	**(61.8)**	**60.8**	**(1.0)**	**—**	**(1.0)**
Long-term liability	**(12.7)**	**12.7**	**—**	**—**	**—**
Net position	**250.1**	**—**	**250.1**	**(1.4)**	**248.7**
As at December 31, 2017					
Risk management contracts					
Current asset	178.1	(30.8)	147.3	(0.7)	146.6
Long-term asset	156.9	(7.7)	149.2	(0.8)	148.4
Current liability	(30.8)	30.8	—	—	—
Long-term liability	(7.9)	7.7	(0.2)	—	(0.2)
Net position	296.3	—	296.3	(1.5)	294.8

Risk Management Contracts

The following table summarizes the average crude oil and natural gas volumes associated with ARC's risk management contracts as at March 31, 2018. Risk management contract premiums are not included in the table below and have been disclosed as commitments in Note 15 "Commitments and Contingencies".

Risk Management Contracts Positions Summary (1)

As at March 31, 2018	**Apr-Dec 2018**		**2019**		**2020**		**2021**		**2022**		**2023**	
Crude Oil – WTI (2)	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	65.39	4,000	65.63	2,000	—	—	—	—	—	—	—	—
Floor	50.00	4,000	50.00	2,000	—	—	—	—	—	—	—	—
Sold Floor	40.00	4,000	40.00	2,000	—	—	—	—	—	—	—	—
Swap	54.00	2,000	57.20	4,000	—	—	—	—	—	—	—	—
Crude Oil – Cdn$ WTI (3)	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day	Cdn$/ bbl	bbl/day
Ceiling	76.25	2,000	—	—	—	—	—	—	—	—	—	—
Floor	65.00	2,000	—	—	—	—	—	—	—	—	—	—
Swap	72.10	12,000	71.17	8,000	—	—	—	—	—	—	—	—
Total Crude Oil Volumes (bbl/day)		**20,000**		**14,000**		**—**		**—**		**—**		**—**
Crude Oil – MSW (Differential to WTI) (4)	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Swap	(3.38)	7,000	—	—	—	—	—	—	—	—	—	—
Natural Gas – NYMEX Henry Hub (5)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	3.64	80,000	3.35	80,000	3.32	50,000	3.32	50,000	3.43	25,000	—	—
Floor	3.00	80,000	2.75	80,000	2.75	50,000	2.75	50,000	2.50	25,000	—	—
Sold Floor	2.50	80,000	2.25	80,000	2.25	50,000	2.25	50,000	—	—	—	—
Swap	4.00	90,000	4.00	40,000	—	—	—	—	—	—	—	—
Natural Gas – AECO (6)	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day
Ceiling	—	—	3.30	10,000	3.60	30,000	—	—	—	—	—	—
Floor	—	—	3.00	10,000	3.08	30,000	—	—	—	—	—	—
Swap	2.96	40,000	3.16	20,000	3.35	30,000	—	—	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)		**207,913**		**148,435**		**106,869**		**50,000**		**25,000**		**—**
Natural Gas – AECO Basis (Percentage of NYMEX)	AECO/ NYMEX	MMBtu/ day	AECO/ NYMEX	MMBtu/ day	AECO/ NYMEX	MMBtu/ day	AECO/ NYMEX	MMBtu/ day	AECO/ NYMEX	MMBtu/ day	AECO/ NYMEX	MMBtu/ day
Sold Swap	84.7	90,000	83.7	40,000	—	—	—	—	—	—	—	—
Natural Gas – AECO Basis (Differential to NYMEX)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Sold Swap	(0.87)	91,127	(0.88)	120,959	(0.82)	98,361	(0.97)	34,192	—	—	—	—
Total AECO Basis Volumes(MMBtu/day)		**181,127**		**160,959**		**98,361**		**34,192**		**—**		**—**
Natural Gas - Other Basis (Differential to NYMEX) (7)		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day		MMBtu/ day
Sold Swap		—		40,000		60,000		60,000		50,000		9,918
Foreign Exchange (8)	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total	Cdn$/ US$	US$ Millions Total
Average Rate Forward	—	—	1.2907	21	—	—	—	—	—	—	—	—

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

12. SHAREHOLDERS' CAPITAL

(thousands of shares)	**Three Months Ended March 31, 2018**	Year Ended December 31, 2017
Common shares, beginning of period	**353,462**	353,287
Restricted shares issued pursuant to the LTRSA [(1)] Plan	**—**	128
Forfeited restricted shares pursuant to the LTRSA Plan	**—**	(22)
Unvested restricted shares held in trust pursuant to the LTRSA Plan	**—**	(106)
Dividend Reinvestment Plan	**—**	129
Stock Dividend Program	**—**	16
Issued on exercise of share options	**—**	30
Common shares, end of period	**353,462**	353,462

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

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

(thousands of shares)	**Three Months Ended March 31, 2018**	Three Months Ended March 31, 2017
Weighted average common shares	**353,462**	353,364
Dilutive impact of share-based compensation [(1)]	**300**	374
Weighted average common shares, diluted	**353,762**	353,738

(1) For the three months ended March 31, 2018, 4.6 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (3.1 million for the three months ended March 31, 2017).

Dividends declared for the three months ended March 31, 2018 were $0.15 per common share, ($0.15 for the three months ended March 31, 2017).

On April 16, 2018, the Board of Directors declared a dividend of $0.05 per common share designated as an eligible dividend, payable in cash to shareholders of record on April 30, 2018. The dividend payment date is May 15, 2018.

13. COMMODITY SALES FROM PRODUCTION

ARC derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

	Three Months Ended March 31	
Commodity sales from production, by product	**2018**	2017
Crude oil	**156.6**	132.8
Condensate	**38.4**	26.1
Natural gas	**127.3**	138.4
NGLs	**17.9**	9.1
Total commodity sales from production	**340.2**	306.4

At March 31, 2018, receivables from contracts with customers, which are included in accounts receivable, were $108.7 million ($78.1 million at March 31, 2017).

14. SHARE-BASED COMPENSATION PLANS

Long-term Incentive Plans

The following table summarizes the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU") and Deferred Share Unit ("DSU") movement for the three months ended March 31, 2018:

(number of units, thousands)	RSUs	PSUs (1)	DSUs
Balance, December 31, 2017	780	1,912	481
Granted	**323**	**683**	**42**
Distributed	**(182)**	**(461)**	**—**
Forfeited	**(25)**	**(20)**	**—**
Balance, March 31, 2018	**896**	**2,114**	**523**

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

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
G&A (recoveries) (1)	**5.0**	(5.5)
Operating (recoveries)	**0.5**	(0.1)
PP&E (recoveries)	**0.2**	(0.7)
Total compensation charges	**5.7**	(6.3)
Cash payments	**8.1**	11.2

(1) Within G&A, a recovery of $1.1 million is related to the DSU Plan for the three months ended March 31, 2018 (expenses of $1.1 million for the three months ended March 31, 2017).

At March 31, 2018, $11.4 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheet ($13.5 million at December 31, 2017) and $17.1 million was included in the long-term incentive compensation liability ($17.5 million at December 31, 2017). A recoverable amount of $0.3 million was included in accounts receivable at March 31, 2018 ($0.3 million at December 31, 2017).

Share Option Plan

The changes in total share options outstanding and related weighted average exercise prices for the three months ended March 31, 2018 were as follows:

	Share Options (number of units, thousands)	Weighted Average Exercise Price ($)
Balance, December 31, 2017	4,893	19.47
Forfeited	**(40)**	**19.35**
Expired	**(293)**	**19.96**
Balance, March 31, 2018	**4,560**	**19.28**
Exercisable, March 31, 2018	**954**	**16.70**

The following table summarizes information regarding share options outstanding at March 31, 2018:

Range of exercise price per common share ($)	Number of share options outstanding (thousands)	Weighted average exercise price per share for options outstanding ($)	Weighted average remaining term (years)	Number of share options exercisable (thousands)	Weighted average exercise price per share for options exercisable ($)
14.55 - 20.00	2,778	16.81	4.38	701	14.55
20.01 - 25.00	1,356	21.05	4.12	253	21.23
25.01 - 29.99	426	29.69	3.22	—	—
Total	4,560	19.28	4.19	954	16.70

ARC recorded compensation expense of $1.0 million relating to the share option plan for the three months ended March 31, 2018 ($0.7 million for the three months ended March 31, 2017). During the three months ended March 31, 2018, $0.1 million of share option compensation charges were capitalized to PP&E ($0.1 million for the three months ended March 31, 2017).

LTRSA Plan
The changes in total LTRSA outstanding and related fair value per restricted share for the three months ended March 31, 2018 were as follows:

	LTRSA (number of units, thousands)	**Fair Value per Restricted Share ($)**
Balance, December 31, 2017	299	19.23
Granted	**2**	**13.17**
Balance, March 31, 2018	**301**	**19.19**

ARC recorded G&A expenses of $0.2 million relating to the LTRSA Plan during the three months ended March 31, 2018 ($0.1 million for the three months ended March 31, 2017).

15. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at March 31, 2018:

	Payments Due by Period				
	1 Year	**2-3 Years**	**4-5 Years**	**Beyond 5 Years**	**Total**
Debt repayments (1)	76.1	211.8	311.5	325.6	925.0
Interest payments (2)	38.1	63.3	38.3	18.1	157.8
Reclamation fund contributions (3)	3.0	5.7	5.3	39.6	53.6
Purchase commitments	28.0	3.8	—	—	31.8
Transportation commitments	104.2	217.4	229.9	602.9	1,154.4
Operating leases	16.0	29.1	27.5	13.7	86.3
Risk management contract premiums (4)	0.4	0.4	—	—	0.8
Total contractual obligations and commitments	**265.8**	**531.5**	**612.5**	**999.9**	**2,409.7**

(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.

16. 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:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating	**9.3**	10.2
G&A	**17.4**	12.1
Total employee compensation expenses	**26.7**	22.3

Cash Flow Statement Presentation

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

Change in Non-Cash Working Capital	**Three Months Ended March 31, 2018**	Three Months Ended March 31, 2017
Accounts receivable	**7.4**	41.1
Accounts payable and accrued liabilities	**15.8**	93.1
Prepaid expenses	**0.6**	1.3
Short-term investments	**—**	(1.8)
Total	**23.8**	133.7
Relating to:		
Operating activities	**4.6**	35.3
Investing activities	**19.2**	98.4
Total change in non-cash working capital	**23.8**	133.7

Other Non-Cash Items	**Three Months Ended March 31, 2018**	Three Months Ended March 31, 2017
Other deferred liabilities	**(0.5)**	(0.4)
Gain on short-term investments	**—**	(0.1)
Share-based compensation expense	**1.2**	0.8
Total other non-cash items	**0.7**	0.3

Net Change in Other Liabilities	**Three Months Ended March 31, 2018**	Three Months Ended March 31, 2017
Long-term incentive compensation liability	**(0.4)**	(11.1)
Risk management contracts	**—**	(0.8)
ARO settlements	**(5.6)**	(9.1)
Total net change in other liabilities	**(6.0)**	(21.0)

Reconciliation of Financing Liabilities Arising from Financing Activities

The following table provides a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

Financing Liabilities	December 31, 2017	**Cash Flows**	**Reclassified to Current**	**Unrealized Foreign Exchange Gain**	**March 31, 2018**
Current portion of long-term debt	73.9	**(13.0)**	**13.0**	**2.2**	**76.1**
Long-term debt	837.4	**—**	**(13.0)**	**24.5**	**848.9**
Total financial liabilities from financing activities	911.3	**(13.0)**	**—**	**26.7**	**925.0**

	December 31, 2016	Cash Flows	Reclassified to Current	Unrealized Foreign Exchange Loss	March 31, 2017
Current portion of long-term debt	51.5	(13.4)	13.4	(0.4)	51.1
Long-term debt	974.5	—	(13.4)	(7.2)	953.9
Total financial liabilities from financing activities	1,026.0	(13.4)	—	(7.6)	1,005.0