## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Whitecap Resources Inc. (the "Company" or "Whitecap") is dated May 3, 2013 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the period ended March 31, 2013, as well as the audited annual financial statements and related notes for the year ended December 31, 2012.

The annual financial statements of Whitecap have been prepared by management and approved by the Company's Board of Directors. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2012.

The MD&A contains certain measures that do not have any standardized meaning as prescribed by IFRS and therefore are considered non-GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Whitecap's disclosure under "Non-GAAP Measures" and "Forward-Looking Statements" included at the end of this MD&A.

## DESCRIPTION OF BUSINESS

Whitecap is engaged in the acquisition, development, optimization and production of crude oil and natural gas in western Canada. We are focused on providing sustainable monthly dividends and per share growth through a combination of accretive oil-based acquisitions and organic growth on existing and acquired assets.

## 2013 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

### Production

Whitecap's average production volumes and commodity splits were as follows:

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Crude oil (bbls/d) | 11,085 | 6,168 |
| NGLs (bbls/d) | 1,319 | 457 |
| Natural gas (mcf/d) | 31,126 | 18,959 |
| Total (boe/d) | 17,592 | 9,785 |
| Production split (%) | | |
| Crude oil and NGL | 71 | 68 |
| Natural gas | 29 | 32 |
| Total | 100 | 100 |

Production volumes averaged 17,592 boe/d in the first quarter of 2013 compared to 9,785 boe/d in 2012, an increase of 80 percent. The increase is primarily due to the corporate acquisitions made in 2012 in addition to the Company's successful drilling and completion programs, partially offset by natural declines. Our crude oil and NGL weighting has also increased three percent to 71 percent compared to the first quarter of 2012.

### Revenue

A breakdown of revenue is as follows:

| ($000s) | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Crude oil | 84,639 | 50,271 |
| NGLs | 6,139 | 2,766 |
| Natural gas | 9,462 | 3,945 |
| Petroleum and natural gas sales | 100,240 | 56,982 |

Total revenues for the first quarter of 2013 increased 76 percent to $100.2 million from $57.0 million in the first quarter of 2012. The increase of $43.3 million consists of $43.9 million attributed to higher production volumes offset by $0.6 million due to lower realized prices.

Average benchmark and realized prices are as follows:

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| **Benchmark prices** | | |
| WTI (US$/bbl)[1] | 94.37 | 102.93 |
| US$ / C$ foreign exchange rate | 1.01 | 1.00 |
| WTI (C$/bbl) | 95.21 | 103.06 |
| Edmonton Par (C$/bbl) | 88.32 | 92.48 |
| AECO natural gas ($/mcf)[2] | 3.19 | 2.14 |
| **Average realized prices**[3] | | |
| Crude oil ($/bbl) | 84.77 | 88.88 |
| NGLs ($/bbl) | 51.60 | 66.44 |
| Natural gas ($/mcf) | 3.38 | 2.29 |
| Combined ($/boe) | 63.32 | 63.63 |

Notes:
(1) WTI represents posting prices of West Texas Intermediate oil.
(2) Represents the AECO daily posting.
(3) Prior to the impact of hedging activities.

In the first quarter of 2013, Whitecap's weighted average realized price prior to the impact of hedging activities was $63.32 per boe compared to the prior period of $63.63 per boe.

US$ WTI prices averaged $94.37 per barrel in the first quarter of 2013 compared to $102.93 per barrel in the prior period. Demand for Canadian light sweet oil improved in the first quarter of 2013, mainly due to the ability to offset lower than expected supply of synthetic crude oil typically preferred by some refineries, and ongoing expansion of crude by rail transportation opportunities. Resulting light sweet oil price differentials to WTI were stronger and less volatile in the first quarter of 2013, averaging a negative differential of $6.95 US/barrel compared to a negative differential of $10.43 US/barrel in the first quarter of 2012.

Differentials continue to strengthen in the near term, and our outlook remains positive for Canadian light sweet crude prices. While proposed major export pipeline projects still await approval, the amount of oil shipped by rail continues to grow. Whitecap is currently railing 600 bbls/day primarily in west central Saskatchewan, and new opportunities will increase rail shipments to approximately 800 bbls/day in the second quarter.

The AECO daily spot price averaged $3.19 per mcf in the first quarter of 2013 compared to $2.14 per mcf in 2012, an increase of 49 percent. This increase was due to strong demand as a result of prolonged cold weather throughout North America significantly reducing high natural gas storage levels seen in 2012. The Company's natural gas receives a modest premium to the Alberta natural gas spot benchmark price due to its higher heat content.

**Risk Management and Hedging Activities**

Whitecap maintains an ongoing risk management program to reduce the volatility of revenues in order to fund capital expenditures and provide a measure of stability to Whitecap dividends. The Company has the ability to hedge up to 75 percent of its most recent quarter's average daily production, net of royalties.

The Company realized a gain of $1.9 million on its risk management contracts in the first quarter of 2013. The unrealized loss is a result of the non-cash change in the mark-to-market values period over period.

| Risk Management Contracts ($000s) | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Realized gain (loss) on risk management contracts | 1,915 | (1,303) |
| Unrealized gain (loss) on risk management contracts | (22,833) | 163 |
| Total gain (loss) on risk management contracts | (20,918) | (1,140) |

At March 31, 2013 the following risk management contracts were outstanding with a mark-to-market liability value of $12.1 million:

*Financial WTI Crude Oil Contracts*

| Term | | Contract | Volume (bbl/d) | Sold Swap Price ($/bbl) | Index |
|---|---|---|---|---|---|
| 01-Apr-13 | 30-Jun-13 | Swap | 500 | 102.52 | C$WTI |
| 01-Apr-13 | 30-Jun-13 | Swap | 1,000 | 97.50 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 106.38 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 95.18 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap(1) | 400 | 103.10 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 102.60 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap(2) | 1,000 | 100.85 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 97.10 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 97.00 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 1,000 | 92.00 | C$WTI |
| 01-Apr-13 | 31-Dec-13 | Swap | 500 | 91.00 | C$WTI |
| 01-Jul-13 | 31-Dec-13 | Swap | 500 | 95.00 | C$WTI |
| 01-Jul-13 | 31-Dec-13 | Swap | 1,000 | 95.05 | C$WTI |
| 01-Jul-13 | 31-Dec-13 | Swap | 500 | 91.00 | C$WTI |
| 01-Jan-14 | 30-Jun-14 | Swap | 1,000 | 94.10 | C$WTI |
| 01-Jan-14 | 30-Jun-14 | Swap | 1,000 | 97.12 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 92.22 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 91.00 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 2,000 | 91.82 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 93.12 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 750 | 95.02 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 250 | 95.05 | C$WTI |
| 01-Jan-15 | 31-Dec-15 | Swap | 1,000 | 90.00 | C$WTI |
| 01-Jan-15 | 31-Dec-15 | Swap | 1,000 | 91.05 | C$WTI |

Notes:
(1) Concurrent with entering into the swap, the Company sold a put at C$74.60 WTI for 400 bbls/d in 2013.
(2) The counterparty has the option on November 30, 2013 to extend the risk management contract to December 31, 2014.

*Financial Natural Gas Derivative Contracts*

| Term | | Contract | Volume (GJ/d) | Sold Swap Price ($/GJ) | Index |
|---|---|---|---|---|---|
| 01-Apr-13 | 31-Dec-13 | Swap | 1,250 | 2.77 | AECO |
| 01-Apr-13 | 31-Dec-13 | Swap | 1,250 | 2.76 | AECO |
| 01-Apr-13 | 31-Dec-13 | Swap | 5,000 | 3.08 | AECO |
| 01-Apr-13 | 31-Dec-13 | Swap | 2,000 | 3.24 | AECO |
| 01-Apr-13 | 31-Dec-13 | Swap | 2,000 | 3.40 | AECO |
| 01-Apr-13 | 31-Oct-13 | Swap | 2,000 | 3.00 | AECO |
| 01-Apr-13 | 31-Oct-13 | Swap | 2,000 | 2.98 | AECO |
| 01-Apr-13 | 31-Dec-13 | Swap | 2,000 | 3.45 | AECO |
| 01-Jan-14 | 31-Dec-14 | Swap | 5,000 | 3.50 | AECO |

*Financial Power Derivative Contracts*

| Term | | Volume (MWh) | Average Swap Price ($/MWh) | Index |
|---|---|---|---|---|
| 01-Apr-13 | 31-Dec-13 | 18,396 | 62.99 | AESO |
| 01-Jan-14 | 31-Dec-14 | 18,396 | 55.24 | AESO |

*Interest Rate Contracts*

| Term | | Amount C$($000s) | Fixed Rate (%) | Index |
|---|---|---|---|---|
| 01-Apr-12 | 31-Oct-13 | 100,000 | 1.06 | CDOR |

**Operating Netbacks**

The components of operating netbacks are shown below:

| Netbacks ($/boe) | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Petroleum and natural gas sales | 63.32 | 64.00 |
| Royalties | (7.09) | (7.81) |
| Operating expenses | (10.78) | (11.61) |
| Transportation expenses | (2.18) | (2.37) |
| Operating netbacks prior to hedging | 43.27 | 42.21 |
| Realized hedging gain | 1.21 | (1.46) |
| Operating netbacks[1] | 44.48 | 40.75 |

Note:
(1) Operating netback is a non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.

For the three months ended March 31, 2013, royalties as a percentage of revenue were 11 percent compared to 12 percent in the comparable period. The decrease in the royalty rate was a result of new production from the Company's horizontal wells which qualified for the reduced royalty rates in Alberta and Saskatchewan. The horizontal wells targeting the Montney Sexsmith pool at Peace River Arch qualify for the five percent royalty rate on up to 70,000 to 80,000 boe of production and for a maximum of 30 to 36 months depending on measured depth drilled. In west central Alberta, the horizontal wells drilled qualify for the five percent royalty rate on up to 60,000 boe of production and for a maximum of 24 months. The horizontal wells targeting the Viking oil pool qualify for the Government of Saskatchewan's reduced royalty rate of 2.5 percent for up to 37,700 barrels of oil produced from the well. The applicable new oil royalty rate will apply thereafter.

Operating costs for the three months ended March 31, 2013 decreased seven percent to $10.78 per boe compared to $11.61 per boe in the prior period. The decrease in operating costs on a per boe basis is attributed to the organic production growth in our core areas and continued focus on operational efficiencies. Transportation costs for the three months ended March 31, 2013 decreased eight percent to $2.18 per boe compared to $2.37 per boe in the prior period. The decrease in transportation costs on a per boe basis is due to favorable prior period adjustments on acquired properties.

In the first quarter of 2013, the operating netback increased nine percent to $44.48 per boe compared to $40.75 per boe in the prior period. The increase is mainly due to lower realized commodity prices offset by hedging gains and lower royalty, operating and transportation costs per boe in 2013.

**General and administrative ("G&A")**

| | Three months ended March 31, | |
|---|---|---|
| ($000s) | 2013 | 2012 |
| Gross G&A | 4,730 | 3,945 |
| Overhead recoveries | (1,387) | (1,652) |
| Capitalized | (560) | (726) |
| Net G&A | 2,783 | 1,567 |
| Net G&A ($/boe) | 1.76 | 1.76 |

Net G&A per boe remained consistent at $1.76/boe for the three months ended March 31, 2013 compared to $1.76/boe for the comparable period.

**Option-based Awards**

| | Three months ended March 31, | |
|---|---|---|
| ($000s) | 2013 | 2012 |
| Stock-based compensation | 1,224 | 1,057 |
| Capitalized stock-based compensation | (500) | (276) |
| | 724 | 781 |

As at March 31, 2013, the Company had 3.9 million stock options and 1.6 million performance warrants outstanding. The options have a weighted average exercise price of $6.61 per option and the warrants have a weighted average exercise price of $2.46 per warrant. Stock-based compensation expense of $1.2 million for the three months ended March 31, 2013 was recognized with the offsetting amount recorded in contributed surplus.

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, consultants and directors of the Company. Stock options granted under the stock option plan have a term of four years to expiry and performance warrants granted have a term of five years to expiry. The fair value of all options granted is estimated at the grant date using the Black-Scholes option pricing model.

**Transaction Costs**

| | Three months ended March 31, | |
|---|---|---|
| ($000s) | 2013 | 2012 |
| Total transaction costs | - | 564 |

Transaction costs are the incremental costs incurred related to an acquisition, such as finder's fees, advisory, legal and other professional fees.

**Interest and Financing Expenses**

| ($000s) | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Interest and fees on bank debt | 3,487 | 1,439 |
| Non-cash accretion expense | 332 | 169 |
| Total interest and financing charges | 3,819 | 1,608 |

Interest expense has increased compared to the prior period as a result of higher levels of bank debt from our development capital program and acquisitions, the cost of which exceeded funds from operations.

**Depletion, Depreciation and Amortization (“DD&A”)**

| ($000s) | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Depletion, depreciation and amortization | 31,938 | 20,282 |
| $ per boe | 20.17 | 22.75 |

The DD&A rate will fluctuate from one period to the next depending on the amount and type of capital spending and the amount of reserves added. The depletion rate is calculated on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the reserves.

**Exploration and Evaluation Asset Expiries**

During the three months ended March 31, 2013, $0.4 million of costs associated with expired mineral leases were recognized as an expense compared to the prior periods of $0.8 million. The expired mineral leases are mainly attributed to non-core areas.

**Taxes**

The Company has a deferred income tax expense of $2.4 million for the three months ended March 31, 2013.

The following gross deductions are available for deferred income tax purposes:

| ($000s) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Undepreciated capital cost | 178,555 | 169,147 |
| Canadian development expense | 389,952 | 381,611 |
| Canadian exploration expense | 13,509 | 17,909 |
| Canadian oil and gas property expense | 183,256 | 172,645 |
| Non-capital loss carry forward | 75,717 | 82,974 |
| Share issue costs | 11,184 | 15,310 |
| Total | 852,173 | 839,596 |

**Net Income**

Net income for the three months ended March 31, 2013 was $5.6 million compared to $7.7 million in 2012. The Company realized a significant increase to petroleum and natural gas sales which was mainly offset by unrealized losses on financial instruments.

**Funds from operations, payout ratio and dividends**

Funds from operations and payout ratio are non-GAAP measures. Funds from operations represents cash flow from operating activities adjusted for changes in non-cash working capital, transaction costs and asset retirement settlements. Payout ratio is calculated as cash dividends divided by funds from operations. The Company considers these to be key measures of performance and indicators of sustainability.

The following table reconciles cash flow from operating activities (a GAAP measure) to funds from operations (a non-GAAP measure):

| | Three months ended March 31, | |
|---|---|---|
| ($000s) | 2013 | 2012 |
| Cash flow from operating activities | 59,340 | 34,920 |
| Changes in non-cash working capital | 4,747 | (2,679) |
| Transaction costs | - | 564 |
| Settlement of decommissioning liabilities | 66 | 466 |
| Funds from operations | 64,153 | 33,271 |
| Cash dividends declared | 19,510 | - |
| Payout ratio | 30% | - |

**Capital Expenditures**

| | Three months ended March 31, | |
|---|---|---|
| ($000s) | 2013 | 2012 |
| Land and lease | 2,258 | 16 |
| Geological and geophysical | 104 | 756 |
| Drilling and completions | 66,324 | 58,435 |
| Investment in facilities | 5,340 | 3,814 |
| Capitalized administration | 560 | 726 |
| Development capital | 74,586 | 63,747 |
| Office and other | 29 | 20 |
| Property acquisitions (net) | 2,139 | 5,833 |
| Corporate acquisitions | - | 122,553 |
| Total capital expenditures | 76,754 | 192,153 |

For the year ended March 31, 2013, development capital totaled $74.6 million with over 96 percent spent on drilling, completions and facilities.

*West Central Alberta*

Whitecap drilled 21 (12.3 net) horizontal light oil wells in the first quarter including 18 (9.3) horizontal multi-fracture light oil wells targeting the Cardium formation. We continue to drill through break up in West Central Alberta using pad drilling in selective areas. Our field activity will ramp up in early July and anticipate continuing to manage 1-2 drilling rigs throughout 2013 for the Pembina, Willesden Green, Ferrier, and Garrington areas to drill Cardium horizontal wells.

*Peace River Arch Alberta*

Whitecap drilled 1 (0.5 net) Montney Sexsmith horizontal oil well in the first quarter and will continue to manage one rig throughout the second and third quarters of 2013 targeting the Montney and Dunvegan formations.

*West Central Saskatchewan*

Whitecap drilled 19 (17.4 net) horizontal Viking oil wells in the Dodsland area and added gathering infrastructure for this light oil resource play. Field activity will be limited in the second quarter due to spring break up and the capital program is expected to resume in mid-July and will continue for the balance of the year.

*South West Saskatchewan*

Whitecap drilled 2 (2.0 net) wells in the greater Fosterton area targeting the Roseray and Success formations. Capital will be deployed in the second quarter to construct emulsion handling and water disposal facilities as a result of our recent success in this area. These facilities are expected to reduce operating expenses going forward.

## Decommissioning Liability

At March 31, 2013, the Company recorded decommissioning liabilities of $56.4 million for future abandonment and reclamation of the Company's properties. Estimates are based on both operational knowledge of the properties and industry guidance provided by the ERCB. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined.

## Capital Resources and Liquidity

*Credit Facility*

As at March 31, 2013, the Company had a $450 million 364-day revolving credit facility with a syndicate of Canadian banks. The facility is available on a revolving basis for a period until May 30, 2013 and then for a further year under the term out provisions. Such initial term out date may be extended for further 364-day periods at the request of the Company, subject to approval by the banks. The credit facility provides that advances may be made by way of direct advances, banker's acceptances or letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances. The applicable margin charged by the bank is dependent upon the Company's net debt to annualized most recent quarter's funds from operations ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus an explicit stamping fee based upon the Company's net debt to annualized most recent quarter's funds from operations ratio. The credit facilities are secured by a fixed and floating charge debenture on the assets of the Company. As of March 31, 2013, the Company was compliant with all covenants provided for in the lending agreement.

*Equity*

On February 10, 2012, as part of the Compass acquisition, 10.9 million Whitecap shares were issued to Compass shareholders as part of the transaction. The common shares issued were valued using the share price of Whitecap on February 10, 2012 of $9.74 per share.

On March 19, 2012, the Company completed a bought deal finance offering of 5.9 million units at a price of $20.20 per unit for total gross proceeds of $120.0 million. Each unit was comprised of one subscription receipt at a price of $10.10 per subscription receipt and one common share at a price of $10.10 per common share. The proceeds from the sale of the subscription receipts were held in escrow pending the completion of the acquisition of Midway. Upon closing of the Midway acquisition on April 20, 2012, each subscription receipt converted to one common share of Whitecap.

On April 20, 2012, as part of the Midway acquisition, 32.1 million Whitecap shares were issued to Midway shareholders as part of the transaction. The common shares issued were valued using the share price of Whitecap on April 20, 2012 of $7.68 per share.

The Company is authorized to issue an unlimited number of common shares. As at May 6, 2013 there were 135.3 million common shares, 3.9 million stock options and 1.6 million warrants outstanding.

*Liquidity*

The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements, dividend payments and to provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds from operations, existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a long-term liability as it is a revolving facility with no expected repayment requirements for the next year. The Company generates positive operating cash flow. At March 31, 2013 the Company had $114.1 million of unutilized credit to cover any working capital deficiencies. The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through available credit facilities combined with anticipated funds from operations. Present sources of capital are currently anticipated to be sufficient to satisfy the Company's capital program and dividend payments for the 2013 fiscal year.

## Contractual Obligations

Whitecap has contractual obligations in the normal course of business which may include purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Whitecap's cash flows in an ongoing manner. The Company is committed to future payments under the following agreements:

| ($000s) | 2013 | 2014 | 2015 | 2016+ | Total |
|---|---|---|---|---|---|
| Operating lease - office building | 1,354 | 1,806 | 1,494 | 1,563 | 6,217 |

## Related Party Transactions

In October 2012, the Company advanced $1.0 million as loans to certain officers and employees, excluding the Chief Executive Officer, to finance the purchase of Whitecap common shares through the facilities of the Toronto Stock Exchange. The loans are non-interest bearing. 50% of the amount of each loan is repayable on April 1, 2014 and the balance is repayable on October 1, 2014. If the employee's employment is terminated for any reason, the full amount of the loan is due and payable within 30 days. Each loan is secured by the common shares acquired with the loan proceeds and Whitecap has full recourse to the other assets of the employee for the amount outstanding.

## Subsequent Events

*Acquisition of Dodsland Viking light oil property*

On April 29, 2013, the Company entered into an agreement to purchase an existing Viking light oil waterflood asset in the Dodsland area of west central Saskatchewan for total consideration of $110.0 million, before closing adjustments. On the same date, the Company entered into an agreement for a $90.0 million financing pursuant to which the underwriters have agreed to purchase for resale to the public, on a bought deal basis, 9,279,000 common shares of Whitecap at a price of $9.70 per common share for gross proceeds of approximately $90.0 million. The Company has also granted the underwriters an over-allotment option, exercisable at the option of the underwriters, on, or for a period of up to 30 days following, the closing date of the offering, to purchase up to an additional 1,114,000 common shares at a price of $9.70 per common share, for further gross proceeds of $10.8 million, which would increase the total gross proceeds of the bought deal financing to $100.8 million, if fully exercised. In conjunction with the bought deal common share financing, the Company has also agreed to issue 1,875,000 common shares on a CDE flow through basis at a price of $10.67 per flow-through common share on a non-brokered, private placement basis for additional gross proceeds of approximately $20.0 million. The gross proceeds from the bought deal financing will be used to partially fund the purchase price of the property acquisition. The remaining funds required to finance the purchase price of the acquisition will be drawn from Whitecap's credit facility. The proceeds from the flow through common share financing will be used to incur eligible Canadian development expenditures that will be renounced to subscribers effective on or before December 31, 2013. Both financings are expected to close on or about May 16, 2013.

*Acquisition of Invicta Energy Corp. ("Invicta")*

On April 30, 2013, the Company completed the acquisition of Invicta for consideration of $0.2 million in cash, the issuance of an aggregate of 4.8 million common shares of Whitecap, and the assumption of Invicta's net debt.

## Off Balance Sheet Arrangements

The Company does not have any special purpose entities nor is it party to any arrangements that would be excluded from the balance sheet.

## Critical Accounting Estimates

Whitecap's financial and operating results may incorporate certain estimates including:

- estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and expenses have not yet been received;
- estimated capital expenditures on projects that are in progress;

- estimated depletion, depreciation and accretion that are based on estimates of oil and gas reserves that the Company expects to recover in the future, commodity prices, estimated future salvage values and estimated future capital costs;
- estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices and foreign exchange rates;
- estimated value of decommissioning liabilities that are dependent upon estimates of future costs, timing of expenditures and the risk-free rate;
- estimated income and other tax liabilities requiring interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time;
- estimated stock-based compensation expense using the Black-Scholes option pricing model;
- estimated fair value of business combinations and goodwill requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of PP&E and E&E assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates.

The Company 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.

**Business Risks**

Whitecap's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different-sized companies. Whitecap is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, stock market volatility, debt service which may limit timing or amount of dividends as well as market price of shares, financial and liquidity risks and environmental and safety risks.

In order to reduce exploration risk, Whitecap employs or contracts highly qualified and motivated professionals who have demonstrated the ability to generate quality proprietary geological and geophysical prospects.

Whitecap has retained an independent engineering consulting firm that assists the Company in evaluating recoverable amounts of oil and gas reserves. Values of recoverable reserves are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and government regulations. Such estimates may vary from actual results.

The Company mitigates its risk related to producing hydrocarbons through the utilization of current technology and information systems. In addition, Whitecap strives to operate the majority of its prospects, thereby maintaining operational control. When the Company does not operate, it relies on its partners in jointly-owned properties to maintain operational control.

Whitecap is exposed to market risk to the extent that the demand for oil and gas produced by the Company exists within Canada and the United States. External factors beyond the Company's control may affect the marketability of oil and gas produced. These factors include commodity prices and variations in the Canada–United States currency exchange rate, which in turn responds to economic and political circumstances throughout the world. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Whitecap uses futures and options contracts to hedge its exposure to the potential adverse impact of commodity price volatility. The primary objective of the risk management program is to provide a measure of stability to Whitecap dividends and its capital development program.

Exploration and production for oil and gas is capital intensive. In addition to funds from operations, the Company accesses the equity markets as a source of new capital. In addition, Whitecap utilizes bank financing to support ongoing capital investments, which exposes the Company to fluctuations in interest rates on its bank debt. Funds from operations also provide Whitecap with capital required to grow in its business. Funds from operations also fluctuate with changing commodity prices. Equity and debt capital are subject to market conditions and availability may increase or decrease from time to time.

### Environmental Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to understand the sensitivities of the environments in which it operates and its responsibilities from the beginning to the end. It also strives to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. Whitecap maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

### Summary of quarterly results

| | 2013 | 2012 | | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|
| ($000s, except as noted) | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| **Financial** | | | | | | | | |
| Petroleum and natural gas sales | 100,240 | 93,896 | 85,327 | 69,565 | 56,982 | 48,033 | 38,543 | 34,497 |
| Funds from operations[(1)] | 64,153 | 63,588 | 56,894 | 40,132 | 33,271 | 32,962 | 26,059 | 19,857 |
| Basic ($/share) | 0.49 | 0.50 | 0.45 | 0.34 | 0.42 | 0.46 | 0.36 | 0.30 |
| Diluted ($/share) | 0.49 | 0.49 | 0.44 | 0.33 | 0.41 | 0.44 | 0.35 | 0.29 |
| Net income (loss) | 5,586 | 7,579 | 10,678 | 26,536 | 7,678 | 3,228 | 10,063 | 12,170 |
| Basic ($/share) | 0.04 | 0.06 | 0.08 | 0.22 | 0.10 | 0.04 | 0.14 | 0.19 |
| Diluted ($/share) | 0.04 | 0.06 | 0.08 | 0.22 | 0.09 | 0.04 | 0.14 | 0.18 |
| Development capital expenditures | 74,586 | 67,563 | 74,749 | 39,667 | 63,747 | 54,839 | 44,694 | 19,156 |
| Property acquisitions (net) | 2,139 | (4,977) | (101) | 3,087 | 5,833 | (136) | 6,405 | 9,947 |
| Corporate acquisitions | - | - | - | 523,069 | 122,553 | - | - | 219,692 |
| Total assets | 1,537,331 | 1,495,778 | 1,496,308 | 1,439,857 | 823,679 | 641,671 | 593,930 | 550,497 |
| Net debt[(1)] | 360,753 | 343,994 | 366,899 | 347,639 | 156,411 | 158,811 | 137,045 | 111,888 |
| Common shares outstanding (000s) | 130,460 | 127,900 | 127,098 | 127,091 | 89,056 | 72,191 | 72,168 | 72,162 |
| Dividends declared ($/share) | 0.15 | - | - | - | - | - | - | - |
| **Operational** | | | | | | | | |
| Average daily production | | | | | | | | |
| Crude oil (bbls/d) | 11,085 | 10,520 | 9,672 | 8,057 | 6,168 | 4,474 | 3,805 | 3,155 |
| NGLs (bbls/d) | 1,319 | 1,274 | 1,183 | 1,073 | 457 | 474 | 355 | 223 |
| Natural gas (Mcf/d) | 31,126 | 31,341 | 29,642 | 26,573 | 18,959 | 17,150 | 13,951 | 11,770 |
| Total (boe/d) | 17,592 | 17,018 | 15,795 | 13,559 | 9,785 | 7,806 | 6,485 | 5,339 |

Note:
(1) Funds from operations and net debt do not have a standardized meaning under GAAP. Refer to non-GAAP measures in this MD&A.

In the past eight consecutive quarters, Whitecap has been able to consistently increase its production volumes through the efficient execution of its capital program as well as completing strategic acquisitions in its core areas. This has resulted in significant growth in funds from operations on an absolute and per share basis.

The following outlines the significant events over the past eight quarters;

In the second quarter of 2011, the Company closed the acquisition of Spry Energy Ltd. ("Spry"), which increased our presence in the Cardium resource play.

In the first quarter of 2012, the Company acquired Compass for total consideration of approximately $120.0 million providing us with an initial entry into the light oil Viking resource play and increasing our low risk drilling opportunities. Additionally, the Company completed a bought deal finance offering of 5.9 million units at a price of $20.20 per unit for gross proceeds of $120 million. Each unit was comprised of one subscription receipt at a price of $10.10 per subscription receipt and one common share at a price of $10.10 per common share.

In the second quarter of 2012, the Company acquired Midway for total consideration of approximately $359.0 million which provided a significant increase to our low risk Cardium drilling inventory.

In the first quarter of 2013, the Company adopted a monthly dividend policy commencing January 2013 with the first dividend payment in February 2013.

**NON-GAAP MEASURES**

This report includes non-GAAP measures as further described herein. These non-GAAP measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS or, alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies.

**"Funds from operations"** represents cash flow from operating activities adjusted for changes in non-cash working capital, transaction costs and asset retirement settlements. Management considers funds from operations and funds from operations per share to be key measures as they demonstrate Whitecap's ability to generate the cash necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Whitecap's ability to generate cash that is not subject to short-term movements in non-cash operating working capital. Refer to the "Funds from operations, payout ratio and dividends" section of this report for the reconciliation of cash flow from operating activities to funds from operations.

**"Operating netbacks"** are determined by deducting royalties, production expenses and transportation and selling expenses from oil and gas revenue. Operating netbacks are per boe measures used in operational and capital allocation decisions.

**"Cash dividends per share"** represents cash dividends declared per share by Whitecap.

**"Payout ratio"** is calculated as cash dividends declared divided by funds from operations.

**"Net debt"** is calculated as bank debt plus working capital deficiency adjusted for risk management contracts. Net debt is used by management to analyze the financial position and leverage of Whitecap.

The following table reconciles bank debt (a GAAP measure) to net debt (a non-GAAP measure):

| ($000s) | March 31, 2013 | December 31, 2012 |
|---|---:|---:|
| Bank debt | 335,895 | 310,700 |
| Current liabilities | 105,560 | 104,903 |
| Current assets | (76,770) | (82,272) |
| Risk management contracts | (3,932) | 10,663 |
| Net Debt | 360,753 | 343,994 |

**BOE PRESENTATION**

Boe means barrel of oil equivalent. All Boe conversions in the report are derived by converting gas to oil at the ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Boe : 6 Mcf 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 of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Boe : 6 Mcf, utilizing a conversion ratio of 1 Boe : 6 Mcf may be misleading as an indication of value.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements contained in this management's discussion and analysis constitute forward-looking statements and are based on Whitecap's beliefs and assumptions based on information available at the time the assumption was made. By its nature, such forward-looking information involves 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 statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

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", "measure" "strategy", "stability" 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: Whitecap's future plans and focus; future drilling plans, plans relating to continuation of facilities, future oil and natural gas prices and Whitecap's commodity risk management programs; the amount of future decommissioning liabilities; future liquidity and financial capacity; future dividends and dividend policy; future results from operations and operating costs and metrics; future costs, expenses and royalty rates; Whitecap's ability to fund its current capital program and dividend payments for the remainder of the year, anticipated scheduling of Whitecap's review of its credit arrangements with its lenders, future taxes payable by Whitecap, Whitecap's tax pools, the expected purchase price of the acquisition of the Dodsland assets, the timing of closing of the acquisition and the financings and the use of proceeds of the financings.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of Whitecap including, without limitation: that Whitecap 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 Whitecap's reserve and resource volumes; the impact of increasing competition; the general stability of the economic and political environment in which Whitecap operates; the ability of Whitecap to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; field production rates and decline rates; the ability to reduce operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future petroleum and natural gas prices; currency, exchange and interest rates; and the continued availability of adequate debt and equity financing and cash flow to fund its planned expenditures; the ability to maintain dividends and the satisfaction of the closing conditions for the acquisition and the financings and on the timing contemplated. Whitecap 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 Whitecap'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 Whitecap or by third party operators of Whitecap's properties, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain require regulatory approvals, including in connection with the acquisition and the financings, increased debt levels or debt service requirements; inaccurate estimation of Whitecap'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 Whitecap's public disclosure documents (including, without limitation, those risks identified in this MD&A) and may be accessed through the SEDAR website (www.sedar.com).

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and none of Whitecap 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.