WHITECAP RESOURCES INC.
BALANCE SHEET

As at (CAD $000s)	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current Assets			
Cash	**13**	10	5
Accounts receivable [Note 5]	**32,753**	10,212	1,886
Deposits and prepaid expenses	**1,241**	727	434
Risk management contracts [Notes 4 & 5]	**-**	-	24
	34,007	10,949	2,349
Deferred income tax	**-**	-	932
Property, plant and equipment [Notes 6 & 7]	**549,161**	191,984	55,293
Exploration and evaluation [Notes 6 & 8]	**15,408**	8,960	756
Goodwill [Notes 6 & 9]	**43,095**	-	-
	641,671	211,893	59,330
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	**62,014**	22,941	2,060
Risk management contracts [Notes 4 & 5]	**5,318**	1,977	-
Bank debt	**-**	17,553	10,580
	67,332	42,471	12,640
Bank debt [Note 10]	**130,804**	-	-
Convertible debentures	**-**	-	9,594
Decommissioning liability [Note 11]	**23,259**	6,730	2,391
Deferred income tax [Note 16]	**39,913**	11,914	-
	261,308	61,115	24,625
Shareholders' Equity			
Share capital [Note 12]	**354,857**	153,228	36,104
Equity component of debentures	**-**	-	425
Contributed surplus [Note 12]	**10,480**	8,036	341
Retained earnings (deficit)	**15,026**	(10,486)	(2,165)
	380,363	150,778	34,705
	641,671	211,893	59,330

Subsequent events [Note 20]
See accompanying notes to financial statements

Approved on behalf of the Board:

(signed) "Stephen C. Nikiforuk"
Stephen C. Nikiforuk
Director

(signed) "Grant B. Fagerheim"
Grant B. Fagerheim
Director

WHITECAP RESOURCES INC.
STATEMENT OF COMPREHENSIVE INCOME AND LOSS
For the years ended December 31,

(CAD $000s, except per share amounts)	**2011**	2010
Revenue		
Petroleum and natural gas sales	**136,370**	25,991
Royalties	**(16,366)**	(3,891)
Other income	**1,062**	336
	121,066	22,436
Gain (loss) on risk management contracts [Note 5]	**2,745**	(1,458)
	123,811	20,978
Expenses		
Operating	**24,593**	6,659
Transportation	**4,078**	866
General and administrative [Notes 13 & 14]	**3,589**	2,379
Stock-based compensation [Note 13]	**1,883**	6,786
Transaction costs	**1,386**	1,465
Interest and financing	**4,614**	2,126
Depletion, depreciation and amortization [Notes 7 & 8]	**48,976**	9,771
	89,119	30,052
Net income (loss) before income taxes	**34,692**	(9,074)
Taxes		
Deferred income tax recovery (expense) [Note 16]	**(9,180)**	753
Net income (loss) and other comprehensive income (loss)	**25,512**	(8,321)
Deficit, beginning of period	**(10,486)**	(2,165)
Retained earnings (deficit), end of period	**15,026**	(10,486)
Net income (loss) per share ($/share) [Note 15]		
Basic	**0.40**	(0.36)
Diluted	**0.39**	(0.36)

See accompanying notes to financial statements

WHITECAP RESOURCES INC.
STATEMENT OF CHANGES IN EQUITY
For the years ended December 31

(CAD $000s)	**2011**	2010
Share Capital [Note 12(b)]		
Balance, beginning of year	**153,228**	36,104
Reverse takeover bid of Spitfire Energy Ltd. ("Spitfire")	**-**	21,235
Issued for cash through private offering	**-**	7,800
Issued on exercise of options/warrants	**345**	882
Contributed surplus adjustment on exercise of options/warrants	**176**	235
Issued for cash through public prospectus offering	**149,600**	80,415
Issued on the acquisition of Spry Energy Ltd. ("Spry")	**57,596**	-
Convertible debenture	**-**	10,188
Share issue costs, net of deferred income tax	**(6,088)**	(3,631)
Balance, end of period	**354,857**	153,228
Contributed Surplus [Note 12(e)]		
Balance, beginning of year	**8,036**	341
Option-based awards	**2,620**	7,930
Option/warrant exercises	**(176)**	(235)
Balance, end of period	**10,480**	8,036
Retained earnings (deficit)		
Balance, beginning of year	**(10,486)**	(2,165)
Net income (loss)	**25,512**	(8,321)
Balance, end of period	**15,026**	(10,486)

WHITECAP RESOURCES INC.
STATEMENT OF CASH FLOWS
For the years ended December 31,

(CAD $000s)	**2011**	2010
Operating activities		
Net income (loss) for the period	**25,512**	(8,321)
Items not affecting cash:		
Depletion, depreciation and amortization	**48,976**	9,771
Deferred income tax expense (recovery)	**9,180**	(753)
Stock-based compensation	**1,883**	6,786
Non-cash financing expense [Note 11]	**434**	311
Unrealized (gain) loss on risk management contracts [Note 5]	**(208)**	2,001
Settlement of decommissioning liabilities [Note 11]	**(67)**	-
	85,710	9,795
Net change in non-cash working capital items [Note 17]	**(6,702)**	(4,160)
	79,008	5,635
Financing Activities		
Increase in bank debt	**113,250**	6,973
Issuance of share capital, net of share issue costs	**141,775**	84,207
	255,025	91,180
Investing activities		
Expenditures on property, plant and equipment	**(140,458)**	(41,130)
Net expenditures on property acquisitions	**(41,373)**	(12,039)
Expenditures on corporate acquisitions [Note 6]	**(171,664)**	(57,509)
Net change in non-cash working capital items [Note 17]	**19,465**	13,868
	(334,030)	(96,810)
Increase in cash, during the period	**3**	5
Cash, beginning of period	**10**	5
Cash, end of period	**13**	10
Cash interest paid	**4,180**	1,815

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Whitecap Resources Inc. (also referred to herein as “Whitecap” or “the Company”) is an oil and natural gas exploration, development and production company based and incorporated in Calgary, Alberta, Canada. The Company’s operations are in Alberta and Saskatchewan. The registered office is located at 500, 222-3rd Avenue SW, Calgary, Alberta, Canada, T2P 0B4.

On June 25, 2010, the Company completed the reverse takeover of Spitfire Energy Ltd. which provided for (i) a recapitalization of the Company through a private placement; (ii) the appointment of a new management team and a new board of directors; (iii) the acquisition of an oil-weighted asset base in southwest Saskatchewan.

On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap Resources Inc. and changed its name to Whitecap Resources Inc. The comparative financial statements of the Company for the year ended December 31, 2010 include the operating results of Whitecap prior to the reverse takeover and the results of the combined entities after June 25, 2010.

2. BASIS OF PRESENTATION

Statement of compliance

In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company’s first annual consolidated financial statements prepared in accordance with IFRS as issued by IASB as at and for the year ended December 31, 2011 including 2010 comparative periods. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

The preparation of these annual financial statements resulted in selected changes to Whitecap's accounting policies as compared to those disclosed in the Company's annual audited financial statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to Whitecap’s accounting policies is disclosed in Note 21 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010 and December 31, 2010 and for the year ended December 31, 2010.

The financial statements were authorized for issue by the Board of Directors on March 20, 2012.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based transactions which are measured at fair value. The methods used to measure fair values are discussed in Note 4.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated.

Oil and natural gas assets are grouped into cash generating units (“CGUs”) that have been identified as being the smallest identifiable group of assets that generate cash flows that are independent of cash flows of other assets or groups of assets. The determination of these CGUs was based on management’s

judgment in regards to shared infrastructure, geographical proximity, commodity type and similar exposure to market risk and materiality.

Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent petroleum reservoir engineers. The recoverable amount is the higher of fair value less cost to sell and the value-in-use. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3.

Amounts recorded for decommissioning costs and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows, as well as the selection of a risk free discount rate.

The estimated fair values of derivative instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model, which is based on significant assumptions such as volatility, forfeiture and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

The impairment calculation is based on estimates of proved plus probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Jointly Controlled Assets and Operations

Substantially all of the Company's exploration and production activities are conducted under joint operating agreements, whereby two or more parties jointly control the assets. These financial statements reflect only the Company's share of these jointly controlled assets and, once production commences, a proportionate share of the relevant revenue and related costs.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired, or when the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash, trade receivables, loans and other receivables

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments. Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or

determinable payment terms and are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's cash, loans and receivables comprise cash and accounts receivable on the balance sheet.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or significant delinquency in payments are considered indicators that a trade receivable is impaired.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The amount of the impairment is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive income.

Oil and Gas Exploration and Evaluation Expenditures
Oil and gas exploration and evaluation ("E&E") expenditures are accounted for in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, whereby costs associated with the exploration for and evaluation of oil and gas reserves are accumulated on an area-by-area basis and are capitalized as either tangible or intangible E&E assets when incurred. Costs incurred in advance of land acquisition are charged to the statement of comprehensive income; however, all other costs, including directly attributable general and administrative costs, are added to E&E assets.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue to work in the area, the unrecoverable costs are grouped into DD&A.

No depletion or depreciation is provided for E&E assets.

Property, Plant and Equipment ("PP&E")
PP&E, which includes oil and natural gas development and production assets, represents costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized to PP&E. PP&E is carried at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses.

Gains and losses on disposal of PP&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and is recognized as other income or other expense in the statement of comprehensive income.

Depletion, Depreciation and Amortization ("DD&A")
The net carrying value of the intangible oil and gas assets is depleted using the unit-of-production method based on estimated proven and probable oil and natural gas reserves, taking into account the future development costs required to produce the reserves.

Proven and probable reserves are determined by independent engineers in accordance with Canadian National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Capitalized plant turnarounds and major inspections will be depreciated over a straight-line basis over their estimated useful life. Any remaining costs from a previous turnaround or inspection will be de-recognized. Depreciation rates, useful lives and residual values are reviewed at each reporting date.

Goodwill
The Company records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill impairments are not reversed.

Impairment
The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, PP&E assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets. The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell ("FVLCTS") and its value in use ("VIU"). FVLCTS is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal or in the case of a lack of comparable transactions, based upon discounted after tax cash flows. VIU is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash generating unit. An impairment loss is recognized in the statement of comprehensive income if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, or indicators suggest that the carrying amount exceeds the recoverable amount. E&E assets are tested for impairment immediately prior to costs being transferred to PP&E. Exploration and evaluation assets are tested for impairment at the CGU level by combining E&E assets with PP&E. The recoverable amount is the greater of FVLCTS or VIU. FVLCTS is derived by estimating the discounted after-tax future net cash flows as described in the PP&E impairment test, plus the fair market value of undeveloped land and seismic. VIU is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash generating unit. Impairments of E&E assets are reversed when there has been a subsequent increase in the recoverable amount, but only to the extent of what the carrying amount would have been had no impairment been recognized.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses previously recognized are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed to the extent that the asset's new carrying amount does not exceed the original carrying amount, net of related accumulated depletion,

depreciation and amortization, if there has been an increase in the estimate of the recoverable amount. An impairment loss in respect of goodwill is not reversed.

Business Combinations
Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in net income (loss). Transaction costs associated with a business combination are expensed as incurred

Decommissioning Liability
Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets. Decommissioning liabilities are measured at the present value of the expenditure expected to be incurred using the relevant risk-free rate. The associated cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability.

Amortization of decommissioning costs are included in depreciation, depletion and amortization in the statement of comprehensive income. Increases resulting from the passage of time are recorded as financing charges in the statement of comprehensive income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

Borrowing Costs
Borrowing costs attributable to the acquisition, construction or production of assets that require greater than a year to be ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of comprehensive income in the period in which they are incurred.

Option-based awards
The Company has issued options to acquire common shares to directors, officers, employees and consultants of the Company. These options are accounted for using the fair-value method which estimates the value of the options at the date of the grant using the Black-Scholes option pricing model. The fair value thus established is recognized as compensation expense over the vesting period of the options with an equivalent increase to contributed surplus. Awards which have vested and exercised are equity settled. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

Income Tax
Income tax comprises current and deferred taxes. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in other comprehensive income or elsewhere in shareholders’ equity, in which case the related income tax expense or recovery is also recognized directly in other comprehensive income or elsewhere in shareholders’ equity.

Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax expense and related liability is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that

have been enacted or substantively enacted at the reporting date and are expected to continue to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Revenue

Revenue from the sale of crude oil, natural gas and natural gas liquids ("NGLs") is recorded when the risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline.

Processing fees charged to other entities for use of facilities owned by the Company are recognized as other income as they accrue in accordance with the terms of the service agreements. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Share Capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Net Income/Loss Per Share

Net income/loss per share is calculated by dividing the net income for the period by the weighted average number of common shares outstanding during the period.

Diluted net income/loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares comprise stock options and warrants granted to employees and directors. The number of shares included with respect to options and warrants is computed using the treasury stock method.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is currently assessing the impact of these standards and amendments and has not yet determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under

existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements.*

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 19, *Employee Benefits*, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

(viii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

(ix) IFRS 7, *Financial Instruments: Disclosures,* has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

(x) IAS 12, *Income Taxes,* was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21*, Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) PP&E and E&E assets:
The fair value of PP&E recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports.

(ii) Cash and cash equivalents, trade and other receivables, bank debt and trade payables:
The fair value of cash and cash equivalents, trade and other receivables, bank overdraft and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2010 and 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.

(iii) Derivatives:
The fair value of forward contracts and swaps is determined by the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes.

(iv) Stock options:
The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

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 value 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 market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of cash and cash equivalents, trade and other receivables, bank debt and trade and other payables included in the balance sheet approximate fair value due to the short term nature of those instruments or the indexed rate of interest on the bank debt. The fair value measurement of the risk management contracts has a fair value hierarchy of Level 2.

5. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to Whitecap if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. Whitecap is exposed to credit risk with respect to its cash, accounts receivable and risk management contracts. Most of Whitecap's accounts receivable relate to oil and natural gas sales and are subject to typical industry credit risks. Whitecap manages this credit risk as follows:

- By entering into sales contracts with only established creditworthy counterparties as verified by a third party rating agency, through internal evaluation or by requiring security such as letters of credit;
- By limiting exposure to any one counterparty; and
- By restricting cash equivalent investments and risk management transactions to counterparties that, at the time of transaction, are not less than investment grade.

The maximum exposure to credit risk is as follows:

	December 31, 2011	December 31, 2010
Cash	13	10
Accounts receivable	32,753	10,212
	32,766	10,222

The majority of the credit exposure on accounts receivable at December 31, 2011 pertains to accrued revenue for December 2011 production volumes. Whitecap transacts with a number of oil and natural gas marketing companies and commodity end users ("commodity purchasers"). Commodity purchasers and marketing companies typically remit amounts to Whitecap by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2011, no one counterparty accounted for more than 25 percent of the total accounts receivable balance.

Whitecap has not experienced any material credit loss in the collection of receivables during 2011.

When determining whether amounts that are past due are collectable, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Whitecap considers all amounts greater than 90 days to be past due. As at December 31, 2011, there was $0.7 million (December 31, 2010 – $0.6 million) of receivables aged over 90 days. Subsequent to December 31, 2011, approximately $0.5 million (December 31, 2010 – $0.5 million) has been collected and the remaining balance is not considered to be a credit risk.

Liquidity Risk

Liquidity risk is the risk that Whitecap will not be able to meet its financial obligations as they become due. Whitecap actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional common shares. Whitecap actively monitors its credit and working capital facilities to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management

believes that future funds generated from these sources will be adequate to settle Whitecap's financial liabilities.

The following table details Whitecap's financial liabilities as at December 31, 2011:

($000s)	<1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	62,014	-	62,014
Bank debt	-	130,804	130,804
Risk management contracts	5,318	-	5,318
Total financial liabilities	67,332	130,804	198,136

The following table details Whitecap's financial liabilities as at December 31, 2010:

($000s)	<1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	22,941	-	22,941
Bank debt	17,553	-	17,553
Risk management contracts	1,977	-	1,977
Total financial liabilities	42,471	-	42,471

Market Risk

Commodity Price Risk

The Company's operational results and financial condition are largely dependent on the commodity price received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors.

Whitecap manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts. Due to changes in the fair value of risk management contracts in place at December 31, 2011, the Company assesses the effects of movement in commodity prices on net income before tax, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable measure. A 10 percent increase in commodity price volatility would result in a negative impact of $16.7 million where as a 10 percent decrease would result in a positive impact of $4.4 million.

At December 31, 2011 the following risk management contracts were outstanding with a mark-to-market liability value of $5.3 million:

Financial WTI Crude Oil Derivative Contracts(1)

Term	Volume (bbl/d)	Average Swap Price ($/bbl)	Average Collar Bought Put Price ($/bbl)	Average Collar Sold Call Price ($/bbl)	Index
2012 Jan to Jun(2) (3)	2,600	98.36	-	-	C$WTI
2012 Jul to Dec	1,000	102.50	-	-	C$WTI
2012 Jan to Jun(4)(5)	750	-	82.00	107.40	C$WTI
2012 Jul to Dec(6)	600	-	80.00	108.00	C$WTI

Financial Power Derivative Contracts

Term	Volume (MWh)	Average Swap Price ($/MWh)	Index
2012 Jan to Dec	2,196	65.00	AESO

Interest Rate Contracts

Term	Amount C$($000s)	Fixed Rate (%)	Index
2012 Jan to Oct	90,000	1.02	CDOR

Subsequent to December 31, 2011, the Company entered into the following risk management contracts:

Financial WTI Crude Oil Derivative Contracts(1)

Term	Volume (bbl/d)	Average Swap Price ($/bbl)	Average Collar Bought Put Price ($/bbl)	Average Collar Sold Call Price ($/bbl)	Index
2012 Feb to Dec(7)	700	100.60	-	-	C$WTI
2012 Jul to Dec	1,000	105.76	-	-	C$WTI
2013 Jan to Jun	1,000	104.45	-	-	C$WTI
2013 Jul to Dec	500	106.38	-	-	C$WTI

Financial Natural Gas Derivative Contracts(1)

Term	Volume (GJ/d)	Average Swap Price ($/GJ)	Index
2012 Feb to Oct(7)	500	4.02	AECO
2012 Jan to Dec	4,575	2.77	AECO
2013 Jan to Dec	2,500	2.77	AECO

Notes:
(1) The volumes and prices reported are the weighted average volumes and prices for the period.
(2) The counterparty has the option on June 29, 2012 to extend the risk management contract to December 31, 2012 at $91.00 C$WTI for 200 bbl/d.
(3) The counterparty has the option on June 29, 2012 to extend the risk management contract to December 31, 2012 at $96.25 US$WTI for 200 bbl/d.
(4) Between the period of January to March, for monthly settlements at or above the ceiling price of $105.00/bbl, 600 bbl/d of volume will be settled for that month at an average price of $92.50/bbl.
(5) Between the period of January to June, for monthly settlements at or above the ceiling price of $108.00/bbl, 1,200 bbl/d of volume will be settled for that month at an average price of $94.00/bbl.
(6) Between the period of July to December, for monthly settlements at or above the ceiling price of $108.00/bbl, 1,200 bbl/d of volume will be settled for that month at an average price of $94.00/bbl.
(7) Acquired from the Compass Petroleum Ltd. acquisition. (See Note 20)

Interest Rate Risk
The Company is exposed to fluctuations in interest rates on its bank debt. Changes to interest rates would impact the Company's future cash flows. Interest rate risk is mitigated through short-term fixed rate borrowings using banker's acceptances and interest rate swaps. If interest rates applicable to floating rate debt at December 31, 2011 were to have increased by 25 basis points (0.25 percent) it is estimated that the Company's annual cash flows would decrease approximately $0.3 million (2010 - $0.1 million).

When assessing the potential impact of interest rate changes on the Company's interest rate swap, the Company believes one percent interest rate volatility is a reasonable measure.

($000s impact on net income before tax)	1% increase	1% decrease
Interest rate swaps	637	(701)

Foreign Exchange Risk
The Company is exposed to the risk of changes in the Canadian/U.S. dollar exchange rate on sales of commodities that are denominated in U.S. dollars or directly influenced by U.S. dollar benchmark prices.

Capital Management
The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt and working capital.

The following is a breakdown of the Company's capital structure:

($000s)	2011	2010
Current assets	34,007	10,949
Current liabilities	(62,014)	(22,941)
Working capital deficit (excluding risk management contracts)	(28,007)	(11,992)
Bank debt	130,804	17,553
Shareholders' equity	380,363	150,778

6. ACQUISITIONS

(a) Spry Energy Ltd.

On April 20, 2011, Whitecap acquired all the issued and outstanding shares of Spry for an aggregate purchase price of approximately $232.5 million which included $130.9 million payable in cash, assumed debt and working capital deficit of $44.0 million and 8.2 million common shares issued. The common shares issued were valued using the share price of Whitecap on April 20, 2011.

The transaction closed on April 20, 2011 and had the acquisition been acquired as of January 1, 2011, an additional $8.2 million in revenue net of royalties and $1.5 million in operating expenses would have been recognized. Net income is not readily determinable.

The income or loss relating to Spry since the acquisition date included in the statement of comprehensive income (loss) has not been disclosed separately as it is not readily determinable.

Net assets acquired ($000s):	
Working capital deficit	(44,022)
Petroleum and natural gas properties	212,925
Exploration and evaluation assets	6,767
Goodwill	43,095
Risk management liability	(3,549)
Decommissioning liability	(5,821)
Deferred income tax	(20,901)
	188,494

Consideration:	
Issuance of shares	57,596
Cash consideration	130,898
Total consideration	**188,494**

(b) Property acquisitions

The Company acquired strategic properties and working interests that complement the existing assets in the Peace River Arch area and West Central area of Alberta. The property acquisitions were accounted for as business combinations under IFRS 3. Had the properties been acquired as of January 1, 2011, an additional $3.1 million in revenue net of royalties and $0.4 million in operating expenses would have been recognized. Net income is not readily determinable.

The income or loss relating to the properties acquired since their acquisition dates included in the statement of comprehensive income (loss) has not been disclosed separately as it is not determinable.

Net assets acquired ($000s):	
Petroleum and natural gas properties	43,882
Decommissioning liability	(889)
	42,993

Consideration:	
Total cash consideration	**42,993**

7. PROPERTY, PLANT AND EQUIPMENT

($000s)	December 31, 2011	December 31, 2010	January 1, 2010
Petroleum and natural gas properties	609,792	203,713	57,378
Other assets	353	279	152
Property, plant and equipment, at cost	610,145	203,992	57,530
Less: accumulated depletion, depreciation and amortization	(60,984)	(12,008)	(2,237)
Total net carrying amount	549,161	191,984	55,293

Cost

($000s)	Oil and natural gas properties	Other assets	Total
Balance at January 1, 2010	57,378	152	57,530
Acquisitions	97,483	-	97,483
Additions	48,852	127	48,979
Disposals	-	-	-
Balance at December 31, 2010	203,713	279	203,992
Acquisitions	256,806	-	256,806
Additions	151,782	74	151,856
Disposals	(2,509)	-	(2,509)
Balance at December 31, 2011	609,792	353	610,145

Depletion, depreciation, and amortization

($000s)	Oil and natural gas properties	Other assets	Total
Balance at January 1, 2010	2,200	37	2,237
Depletion, depreciation and amortization	9,708	63	9,771
Disposals	-	-	-
Balance at December 31, 2010	11,908	100	12,008
Depletion, depreciation and amortization	48,884	92	48,976
Disposals	-	-	-
Balance at December 31, 2011	60,792	192	60,984

At December 31, 2011, $10.2 million of salvage value (2010 – $2.5 million) was excluded from the depletion calculation. Future development costs of $272.5 million (2010 – $114.7 million) were included in the depletion calculation. The Company capitalized $1.8 million (2010 - $1.7 million) of administrative costs directly relating to development activities which includes $0.7 million (2010 - $1.1 million) of stock-based compensation.

8. EXPLORATION AND EVALUATION

($000s)	December 31, 2011	December 31, 2010	January 1, 2010
Exploration and evaluation assets	15,408	8,960	756
Total net carrying amount	15,408	8,960	756

($000s)	Undeveloped Land
Balance at January 1, 2010	756
Additions	2,354
Acquisitions	7,163
Disposals / land expiries	(1,313)
Balance at December 31, 2010	8,960
Additions	5,340
Acquisitions	6,767
Disposals / land expiries	(1,004)
Transfers to property, plant and equipment	(4,655)
Balance at December 31, 2011	15,408

E&E assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs acquired or incurred on E&E assets during the period.

9. GOODWILL

($000s)	
Balance at January 1, 2010	-
Balance at December 31, 2010	-
Spry acquisition (Note 6)	43,095
Balance at December 31, 2011	43,095

10. CREDIT FACILITIES

As at December 31, 2011, the Company had a $190 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 31, 2012 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 December 31, 2011, the Company was compliant with all covenants provided for in the lending agreement. The borrowing base is subject to a semi-annual review by the bank with the next review scheduled on or before May 31, 2012.

11. DECOMMISSIONING LIABILITY

($000s)

Balance, January 1, 2010	2,391
Liabilities incurred	339
Liabilities acquired	2,419
Revision in estimates	1,439
Accretion expense	142
Balance, December 31, 2010	6,730
Liabilities incurred	2,764
Liabilities acquired	12,897
Liabilities disposed	(633)
Liabilities settled	(67)
Revision in estimates	1,134
Accretion expense	434
Balance, December 31, 2011	23,259

The Company's decommissioning liability results from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The key assumptions, on which the carrying amount of the decommissioning liability is based, include a risk-free rate of 2.4 percent and inflation rate of 2.0 percent. The total undiscounted amount of the estimated cash flows required to settle the obligations was $31.4 million (2010 – $11.6 million). The expected timing of payment of the cash flows required for settling the obligations extends up to 46 years.

12. SHARE CAPITAL

On June 25, 2010, as a result of the reverse takeover of Spitfire, each Whitecap share was exchanged for 8.33 Spitfire shares. On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap and changed its name to Whitecap Resources Inc. On October 18, 2010, Whitecap consolidated its common shares on a 10 to 1 basis. All figures have been presented as if the 8.33 exchange ratio and 10 to 1 share consolidation occurred on January 1, 2009.

a) Authorized

Unlimited number of common shares without nominal or par value.

b) Issued and outstanding

(000s)	Shares	$
Balance, January 1, 2010	15,312	36,104
Issued for cash through private offering	21	50
Reverse takeover bid of Spitfire[(1)]	3,792	21,235
Issued for cash through private offering[(1)]	3,100	7,750
Option-based awards	329	882
Contributed surplus adjustment on exercise of stock options	-	235
Issued for cash through public prospectus offering[(2)]	15,800	80,415
Convertible debenture[(3)]	3,472	10,188
Share issue costs, net of deferred income tax	-	(3,631)
Balance, December 31, 2010	41,826	153,228
Issued on exercise of options/warrants	137	345
Contributed surplus adjustment on exercise of options/warrants	-	176
Issued for cash through public prospectus offering[(4)]	22,000	149,600
Issued on the acquisition of Spry Energy Ltd.[(5)]	8,228	57,596
Share issue costs, net of deferred income tax	-	(6,088)
Balance, December 31, 2011	72,191	354,857

[(1)] On June 25, 2010, the Company completed the reverse takeover of Spitfire whereby each shareholder of Whitecap received 8.33 common shares of Spitfire in exchange for each Whitecap share totaling 15.3 million shares. As part of the reverse takeover, Spitfire also completed a $7.8 million non-brokered private placement (the "Private Placement") of 1.6 million units of Spitfire at a price of $2.50 per unit and 1.5 million common shares at a price of $2.50 per common share. Each unit comprised of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $2.50 for a period of five years. The private placement units and common shares are subject to an 18 month escrow, pursuant to which 25 percent of such security was released from escrow on July 12, 2010 and 25 percent released every six months thereafter. On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap Resources Inc. and changed its name to Whitecap Resources Inc.

[(2)] On July 30, 2010, the Company completed a bought deal finance offering of 8.9 million subscription receipts of Whitecap common shares at a price of $4.50 per subscription receipt for total gross proceeds of $40.1 million. Concurrent with the closing of the Onyx acquisition, the outstanding subscription receipts of Whitecap were exchanged for common shares of Whitecap effective July 30, 2010.

On December 22, 2010, the Company completed a bought deal finance offering of 6.9 million subscription receipts of Whitecap common shares at a price of $5.85 per subscription receipt for total gross proceeds of $40.4 million.

[(3)] On December 7, 2010, the holders of the convertible debenture elected to convert the entire principal amount outstanding into approximately 3.5 million common shares.

[(4)] On April 20, 2011, the Company completed a bought deal finance offering of 20.0 million subscription receipts of Whitecap common shares at a price of $6.80 per subscription receipt for total gross proceeds of $136.0 million and granted the underwriters an option to subscribe for an additional 2.0 million subscription receipts at a price of $6.80 per subscription receipt within 30 days of the close of the offering. Concurrent with the closing of the Spry acquisition, the over-allotment option was exercised, and all of the outstanding subscription receipts of Whitecap were exchanged for common shares of Whitecap effective April 20, 2011.

[5] As part of the Spry acquisition an additional 8.2 million Whitecap shares were issued to Spry shareholders as part of the transaction. The common shares issued were valued using the share price of Whitecap on April 20, 2011.

c) Option-based awards

Under the Stock Option Plan, the Board of Directors may grant to any director, officer, employee or consultant, options to acquire common shares of the Company. Stock options granted under the stock option plan have a term of four years to expiry. Vesting is determined by the Company's Board of Directors. Currently, all of the options granted vest equally over a three year period commencing on the first anniversary date of the grant. Each stock option granted permits the holder to purchase one common share of the Company at the stated exercise price.

(000s except per share amounts)	Number of Options	Weighted Average Exercise Price ($)
Balance, January 1, 2010	1,393	2.40
Granted	760	3.55
Acquired[1]	276	2.75
Exercised	(329)	2.68
Expired[1]	(3)	5.58
Forfeited	(83)	2.40
Balance, December 31, 2010	2,014	2.82
Granted	2,121	6.15
Exercised	(134)	2.52
Forfeited	(77)	5.08
Balance, December 31, 2011	3,924	4.59

(1) Pursuant to the reverse takeover transaction, all outstanding Spitfire options vested upon the close of the transaction and all unexercised options in the period expired on September 24, 2010 in accordance with the Spitfire option agreement.

Exercise Price ($)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price ($/share)	Number Exercisable	Weighted Average Exercise Price ($/share)
2.40 - 2.99	1,185	1.7	2.40	739	2.40
3.00 - 4.49	417	2.4	3.00	139	3.00
4.50 – 7.00	2,322	3.3	5.99	75	4.64
2.40 – 7.00	3,924	2.7	4.59	953	2.66

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants in the period is as follows:

	2011	2010
Risk-free interest rate	1.7%	2.2%
Expected life (year)	4	4
Expected volatility	51%	65%
Expected dividend yield	-	-
Forfeiture rate	3.4%	-
Fair value ($/option)	$3.13	$1.79

d) Warrants

On June 25, 2010, performance warrants were granted to certain employees in conjunction with the reverse take-over of Spitfire. A total of 1.6 million performance warrants were issued, entitling the holders

thereof to purchase one common share at a price of $2.50 for a period of 5 years following the date of issuance. The performance warrants will vest and become exercisable as to one-third upon the 20 day weighted average trading price of the common shares (the "Trading Price") equaling or exceeding $4.00, an additional one-third upon the Trading Price equaling or exceeding $5.00 and a final one-third upon the Trading Price equaling or exceeding $6.00. The performance warrants are measured at their fair value on the date of grant and recognized as an expense over a two year vesting period. All performance warrants met their vesting requirements in 2010.

Pursuant to the reverse take-over of Spitfire, Whitecap assumed 130,000 warrants outstanding for Spitfire shares which entitled each holder to purchase one Spitfire common share at a price of $11.50 per Spitfire share. These warrants expired August 1, 2010 in accordance with the warrant agreement.

(000s except per share amounts)	Number of Warrants	Weighted Average Exercise Price ($)
Balance, January 1, 2010	-	-
Granted	1,600	2.50
Acquired	130	11.50
Expired	(130)	(11.50)
Balance, December 31, 2010	1,600	2.50
Exercised	(3)	2.50
Balance, December 31, 2011	1,597	2.50

Exercise Price ($)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($/share)	Number Exercisable	Weighted Average Exercise Price ($/share)
2.50	1,597	3.5	2.50	1,597	2.50

The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk-free interest rate	2.20%
Expected life (years)	5
Expected volatility	65%
Weighted average fair value ($/warrant)	$4.08

e) Contributed Surplus

($000s)	
Balance, January 1, 2010	341
Stock-based compensation – Options	1,407
Stock-based compensation – Warrants	6,523
Option exercises	(235)
Balance, December 31, 2010	8,036
Stock-based compensation – Options	2,620
Option exercises	(163)
Warrant exercises	(13)
Balance, December 31, 2011	10,480

13. EXECUTIVE COMPENSATION

($000s)	Twelve months ended December 31, 2011	2010
Salaries and bonuses	1,411	950
Stock-based compensation	888	5,672
	2,299	6,622

Executive compensation relates to amounts paid in salary expense and non cash compensation to the seven officers and seven directors of the Company.

14. EXPENSES BY NATURE

($000s)	Twelve months ended December 31, 2011	2010
Salaries and benefits	4,160	1,993
Professional services	1,183	635
Building leases	946	811
Other	1,223	1,077
Overhead recoveries	(2,850)	(1,343)
Capitalized salaries	(1,073)	(794)
	3,589	2,379

15. PER SHARE RESULTS

(000s except per share amounts)	Twelve months ended December 31, 2011	2010[(1)]
Per share income (loss)		
Basic	0.40	(0.36)
Diluted	0.39	(0.36)
Weighted average shares outstanding		
Basic	63,009	23,162
Diluted	65,007	23,676

(1) Prior period comparatives have been restated to reflect the 8.33 exchange ratio and 10 to 1 share consolidation.

16. INCOME TAXES

Income taxes for the years ended December 31, 2011 and 2010 are as follows:

Deferred tax:

($000s)	2011	2010
Origination and reversal of timing differences	(9,180)	753
Income tax recovery (expense)	(9,180)	753

The tax on the Company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Twelve months ended December 31,	
($000s)	2011	2010
Profit before tax at statutory rate	(9,228)	2,552
Increase (decrease) resulting from		
Change in statutory rate and other	549	523
Non-deductible stock based compensation	(501)	(1,909)
Non-deductible transaction costs	-	(413)
Income tax recovery (expense)	(9,180)	753

The weighted average applicable tax rate was 26.6 percent (2010 - 28.1 percent).

The analysis of deferred tax assets and deferred tax liabilities is as follows:

($000s)	December 31, 2011	December 31, 2010
Deferred tax assets		
To be recovered after more than 12 months	(18,521)	(9,973)
To be recovered within 12 months	-	-
Deferred tax liabilities		
To be recovered after more than 12 months	58,434	21,887
To be recovered within 12 months	-	-
Deferred tax liability (net)	39,913	11,914

Deferred tax liabilities / (assets)

($000s)	Capital assets in excess of tax value	Risk management asset / (liability)	Decomm-issioning liability	Non-capital loss carry forward	Share issue costs	Total
At January 1, 2010	1,339	7	(597)	(1,492)	(189)	(932)
Charged / (credited) to the income statement	2,598	(533)	(36)	(2,953)	171	(753)
Charged / (credited) directly to equity	-	-	-	-	(1,246)	(1,246)
Corporate acquisition	17,226	-	(333)	(2,015)	(25)	14,853
Other	723	-	(731)	-	-	(8)
At December 31, 2010	21,886	(526)	(1,697)	(6,460)	(1,289)	11,914
Charged / (credited) to the income statement	7,237	55	(109)	1,278	719	9,180
Charged / (credited) directly to equity	-	-	-	-	(2,081)	(2,081)
Corporate acquisition	26,721	(959)	(1,461)	(3,302)	-	20,999
Other	2,596	-	(2,572)	-	(123)	(99)
At December 31, 2011	58,440	(1,430)	(5,839)	(8,484)	(2,774)	39,913

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

($000s)	December 31, 2011	December 31, 2010
Undepreciated capital cost	89,770	26,288
Canadian development expense	125,779	30,824
Canadian exploration expense	11,331	6,062
Canadian oil and gas property expense	103,274	49,510
Non-capital loss carry forward	33,796	25,687
Share issue costs	10,894	5,056
Total	374,844	143,427

At December 31, 2011, the Company has non-capital losses of $33.8 million that expire between 2025 and 2030.

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital, excluding bank debt:

	December 31, 2011	December 31, 2010
Accounts receivable	(16,475)	(5,798)
Prepaid and deposits	(262)	(22)
Accounts payable and accrued liabilities	29,500	15,528
Change in non-cash working capital	12,763	9,708
Related to:		
Operating Activities	(6,702)	(4,160)
Investing Activities	19,465	13,868

18. COMMITMENTS

The Company is committed to future payments under the following agreements:

($000s)	2012	2013	2014	2015+	Total
Operating lease - office building	991	972	972	2,423	5,358

19. RELATED PARTY TRANSACTIONS

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP ("BDP") to provide Whitecap with legal services. A director of Whitecap is a partner of this firm. During the year ended December 31, 2010, the Company incurred $0.2 million for legal fees and disbursements. These amounts have been recorded at the exchange amount. The Company expects to retain the services of BDP from time to time. As of December 31, 2011 no payable balance was outstanding.

20. SUBSEQUENT EVENTS

A. Acquisition of Compass Petroleum Ltd. ("Compass")

On February 10, 2012, Whitecap completed the acquisition of Compass for consideration of $14.0 million in cash and the issuance of an aggregate of 10.9 million common shares of Whitecap.

In connection with the Compass acquisition, the borrowing base under Whitecap's syndicated credit facility has been increased from $190 million to $250 million. The next borrowing base re-determination is scheduled on or prior to May 31, 2012

B. Acquisition of Midway Energy Ltd. ("Midway")

On February 28, 2012, Whitecap and Midway announced that they have entered into an arrangement agreement (the "Arrangement Agreement") providing for the acquisition by Whitecap of all the issued and outstanding common shares of Midway (the "Transaction"). Midway is a light oil weighted public company with its primary operations located in the Garrington area of Alberta where the majority of its production and reserves are focused in the Cardium formation. Under the terms of the Transaction, Midway shareholders shall receive, for each Midway common share held, at the election of the holder: i) $4.85 cash; or ii) 0.4802 of a Whitecap common share (a "Whitecap Share"); or iii) a combination of cash and Whitecap Shares, subject in each case to a maximum. The maximum aggregate cash amount payable to Midway shareholders shall be approximately $111.2 million and the maximum number of Whitecap Shares to be issued to Midway shareholders shall be approximately 33.5 million Whitecap Shares. Whitecap will also assume the debt of Midway, estimated at $100.8 million, after taking into account anticipated option proceeds and transaction and severance costs, as at February 28, 2012.

The Transaction will be funded in part through a $120.0 million bought deal financing which closed on March 19, 2012. The financing is structured whereby the underwriters have agreed to purchase for resale to the public, on a bought deal basis, 5,941,000 units of Whitecap (the "Units") at a price of $20.20 per Unit to raise gross proceeds of approximately $120.0 million. Each Unit is comprised of one Whitecap Share at a price of $10.10 and one subscription receipt which can be exchanged for one Whitecap Share. The gross proceeds from the sale of Subscription Receipts will be held in escrow pending the completion of the Transaction. If the Transaction is completed on or before May 15, 2012, or such later date as may be agreed to by the Underwriters, the net proceeds from the sale of the Subscription Receipts will be released to Whitecap and each Subscription Receipt will be exchanged for one Whitecap Share for no additional consideration. If the Transaction is not completed by Whitecap on or before May 15, 2012, and the Underwriters have not agreed to extend such date, or the Arrangement Agreement is terminated at an earlier time, then the purchase price for the Subscription Receipts shall be returned to subscribers, together with a pro rata portion of the interest accrued on the subscription funds attributable to the Subscription Receipts. Whitecap has also granted the Underwriters an over-allotment option exercisable at any time on, or for a period of 30 days following the closing of the Offering, to acquire an additional 891,150 Units to cover over-allotments, if any, and for market stabilization purposes, at the Offering Price, for additional aggregate gross proceeds of up to $18.0 million. If the Over-Allotment Option is fully

exercised, gross proceeds from the Offering will be approximately $138.0 million. The net proceeds of the Offering will be used to fund the cash component of the Transaction payable by Whitecap pursuant to the Arrangement Agreement, to fund capital expenditures and for general corporate purposes.

21. TRANSITION TO IFRS

As disclosed in Note 2, these financial statements represent Whitecap's initial presentation of the financial results of operations and financial position under IFRS for the year ended December 31, 2011 in conjunction with the Company's annual audited financial statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" as issued by the IASB. Previously, the Company prepared its annual financial statements in accordance with Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

IFRS 1 exemptions utilized:

- Business combinations – allows the carry forward of Canadian GAAP accounting for business combinations prior to transition date.
- Full cost book value as deemed cost – election to measure oil and gas assets at the date of transition to IFRS.

The following reconciliations present the adjustments made to the Company's Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Balance Sheet as at January 1 and December 31, 2010, and the Statements of Comprehensive Income and Loss for the year ended December 31, 2010.

IFRS Opening Balance Sheet
As at January 1, 2010

		IFRS Adjustments		
($000s)	Canadian GAAP	DL	E&E	IFRS
Assets		Note A	Note B	
Current Assets				
Cash	5			5
Accounts receivable	1,886			1,886
Deposits and prepaid expenses	434			434
Risk management contracts	24			24
	2,349			2,349
Property, plant and equipment	56,049		(757)	55,293
Exploration and evaluation	-		757	756
Deferred income tax	662	270		932
	59,060	270	-	59,330
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	2,060			2,060
Bank debt	10,580			10,580
	12,640			12,640
Convertible debentures	9,594			9,594
Decommissioning Liability	1,309	1,082		2,391
	23,543	1,082	-	24,625
Shareholders' Equity				
Share capital	36,104			36,104
Equity component of debentures	425			425
Contributed surplus	341			341
Deficit	(1,353)	(812)		(2,165)
	35,517	(812)	-	34,705
	59,060	270	-	59,330

IFRS Balance sheet
As at December 31, 2010

($000s)	Canadian GAAP	IFRS Adjustments						IFRS
		DL	E&E	Transaction Costs	Bus. Devel. Costs	DD&A	FIT	
Assets		Note A	Note B	Note D	Note E	Note C	Note F	
Current Assets								
Cash	10							10
Accounts receivable	10,212							10,212
Deposits and prepaid expenses	727							727
	10,949							10,949
Property, plant and equipment	196,475	1,507	(8,960)	(310)	(1,470)	5,469	(727)	191,984
Exploration and evaluation	-		8,960					8,960
	207,424	1,507	-	(310)	(1,470)	5,469	(727)	211,893
Liabilities								
Current Liabilities								
Accounts payable and accrued liabilities	22,941							22,941
Risk management contract	1,977							1,977
Bank debt	17,553							17,553
	42,471							42,471
Decommissioning Liability	4,180	2,550						6,730
Deferred income tax	11,719	(270)		(81)			546	11,914
	58,370	2,280	-	(81)	-	-	546	61,115
Shareholders' Equity								
Share capital	151,994			1,234				153,228
Contributed surplus	8,036							8,036
Deficit	(10,976)	(773)	-	(1,463)	(1,470)	5,469	(1,273)	(10,486)
	149,054	(773)	-	(229)	(1,470)	5,469	(1,273)	150,778
	207,424	1,507	-	(310)	(1,470)	5,469	(727)	211,893

Statement of Comprehensive Income
Year ended December 31, 2010

($000s, except per share amounts)	Canadian GAAP	IFRS Adjustments DL	Transaction Costs	Bus. Devel. Costs	DD&A	FIT	IFRS
Revenue		Note A	Note D	Note E	Note C	Note F	
Revenue	25,991						25,991
Royalties	(3,891)						(3,891)
Other income	336						336
	22,436						22,436
Realized gain on risk management contracts	543						543
Unrealized loss on risk management contracts	(2,001)						(2,001)
	20,978						20,978
Expenses							
Operating	6,659						6,659
Transportation	866						866
General and administrative	7,697		1,463	1,470			10,630
Interest and financing	1,984	142					2,126
Depletion, depreciation and amortization	15,421	(181)			(5,469)		9,771
	32,627	(39)	1,463	1,470	(5,469)	-	30,052
Net loss before income taxes	(11,649)	39	(1,463)	(1,470)	5,469	-	(9,074)
Taxes							
Deferred income tax recovery (expense)	2,026					(1,273)	753
Net loss and other comprehensive loss	(9,623)	39	(1,463)	(1,470)	5,469	(1,273)	(8,321)
Net loss per share							
Basic and diluted ($/share)	(0.42)						(0.36)

The following discussion explains the significant differences between Whitecap's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive notes below correspond to the adjustments presented in the reconciliations.

IFRS Adjustments

A) Decommissioning Liability ("DL")

Under Canadian GAAP, the DL was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not remeasured to reflect period end discount rates.

Under IFRS, the DL is measured as the best estimate of the expenditure to be incurred and requires that the DL be remeasured using the period end discount rate.

Under IFRS 1 Whitecap was required to remeasure its DL upon transition to IFRS and recognize the difference in retained earnings. The application of this exemption resulted in a $1.1 million increase to the DL on Whitecap's Balance Sheet as at January 1, 2010 and a corresponding after-tax charge to retained earnings of $0.8 million. Subsequent IFRS remeasurements of the obligation are recorded through property, plant and equipment with an offsetting adjustment to the DL. As at December 31, 2010, excluding the January 1, 2010 adjustment, Whitecap's DL increased by $2.6 million, which primarily reflects the remeasurement of the obligation using a risk free rate of 3.5 percent as at December 31, 2010. (8.0 percent under previous GAAP) The change in discount rate has decreased accretion expense and is reflected in the DL adjustments in the statement of comprehensive income for the year ended December 31, 2010.

B) Exploration and Evaluation ("E&E")

E&E assets at January 1, 2010 were deemed to be $0.8 million, representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification of $0.8 million from property, plant and equipment to E&E assets on Whitecap's Balance Sheet as at January 1, 2010. As at December 31, 2010, the Company's E&E assets were $9.0 million. The remaining full cost pool was allocated to the development assets pro rata using the estimated proven plus probable reserve values.

Under Canadian GAAP, E&E costs were capitalized as property, plant and equipment in accordance with the CICA's full cost accounting guidelines. Under IFRS, Whitecap capitalizes these costs initially as E&E assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from E&E assets to property, plant and equipment. Under IFRS, unrecoverable E&E costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

C) Depletion, depreciation and amortization ("DD&A")

Development costs at January 1, 2010 were deemed to be $55.3 million, representing the development assets under Canadian GAAP. Consistent with Canadian GAAP, these costs are capitalized as property, plant and equipment under IFRS. Under Canadian GAAP, development costs were depleted using the unit-of-production method based on estimated proven reserves and calculated for the full cost pool. Under IFRS, development costs are depleted using the unit-of-production method based on estimated proven plus probable reserves and calculated at the established area level. The IFRS 1 exemption permitted Whitecap to allocate development costs to the area level using proved plus probable reserves values for each area as at January 1, 2010. Depleting based on estimated proven plus probable reserves and at an area level under IFRS resulted in a $5.5 million decrease to Whitecap's DD&A expense for the year ended December 31, 2010.

D) Business Combinations

Business combinations have been adjusted to reflect the fair value of shares issued by Whitecap determined at the acquisition date, expensing of transaction costs, and the related tax effects to those adjustments.

(i) Spitfire Energy Ltd. (Reverse takeover)

Net assets acquired ($000s):	
Non-cash working capital deficiency	(8,571)
Petroleum and natural gas properties	34,554
Decommissioning liability	(635)
Deferred income tax	(4,112)
	21,236

Consideration:	
Issuance of shares	21,236
	21,236

(ii) Onyx 2006 Inc. ("Onyx")

Net assets acquired ($000s):	
Non-cash working capital deficiency	(10,958)
Petroleum and natural gas properties	62,928
Decommissioning liability	(692)
Deferred income tax	(10,744)
	40,534

Consideration:	
Cash consideration paid	40,534
	40,534

E) Business Development Costs

Costs directly related to the acquisition of properties and businesses were expensed.

F) Income Tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and Canadian GAAP. Upon transition to IFRS, the Company recognized a $0.5 million increase in the deferred income tax asset. For the year ended December 31, 2010, the application of the IFRS adjustments as discussed above resulted in a $1.3 million increase to the Company's deferred income tax expense and a corresponding decrease to the Company's net earnings.

Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified in a consistent manner as operating, investing or financing each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating.