MANAGEMENT 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 March 20, 2012 and should be read in conjunction with the Company's audited annual financial statements and related notes for the year ended December 31, 2011.

The accompanying annual financial statements of Whitecap have been prepared by management and approved by the Company's Board of Directors. On January 1, 2011, Whitecap adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, *First-time Adoption of International Financial Reporting Standards* as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Comparative information has been prepared in accordance with IFRS. These financial statements have been prepared in accordance with IFRS in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company and additional information related to the transition to IFRS are set out in Notes 2 and 21 to the audited annual financial statements for the year ended December 31, 2011.

The MD&A contains certain measures that do not have any standardized meaning as prescribed by IFRS and Canadian GAAP 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.

On June 25, 2010, the Company completed the reverse takeover of Spitfire Energy Ltd. ("Spitfire") 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; and (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.

2011 FINANCIAL AND OPERATIONAL RESULTS

Production

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

	2011	Year ended December 31, 2010
Crude oil (bbls/d)	3,279	631
NGLs (bbls/d)	309	112
Natural gas (mcf/d)	12,417	4,141
Total (boe/d)	5,657	1,433
Production split (%)		
Crude oil and NGL	63	52
Natural gas	37	48
Total	100	100

Production averaged 5,657 boe/d in 2011 compared to 1,433 boe/d in 2010, an increase of 295 percent. The increase in production is mainly attributed to our increased presence in the Cardium light oil resource play through the acquisition of Spry Energy Ltd. ("Spry") in April 2011 and the organic growth we have achieved on our existing and acquired assets. The fourth quarter 2011 production volumes increased 288 percent to 7,806 boe/d compared to 2,014 boe/d in the prior period. The Company continues to focus its capital spending on light oil opportunities and has been successful in increasing its crude oil and NGL weighting to 63 percent of total production compared to 52 percent in the prior year.

Revenue

A breakdown of revenue is as follows:

($000s)	2011	Year ended December 31, 2010
Crude oil	110,922	17,254
NGLs	8,004	2,325
Natural gas	17,444	6,412
Total commodity revenue	136,370	25,991
Other revenue	1,062	336
Total	137,432	26,327

Total revenues increased over five times to $137.4 million in 2011 from $26.3 million in 2010. Fourth quarter 2011 total revenue was $48.0 million compared to $10.0 million for the same period in the prior year. Higher revenues in 2011 were a result of increased production volumes and higher realized prices for crude oil and NGLs compared to the prior year, partially offset by lower realized natural gas prices and a stronger Canadian dollar.

Average benchmark and realized prices are as follows:

	Year ended December 31, 2011	2010
Benchmark prices		
WTI (US$/bbl)(1)	94.97	79.45
US$/C$ foreign exchange rate	0.99	1.03
WTI (C$/bbl)	93.85	81.22
AECO natural gas ($/Mcf)(2)	3.62	4.00
Average realized prices(3)		
Crude oil ($/bbl)	92.32	74.89
NGLs ($/bbl)	70.84	56.95
Natural gas ($/Mcf)	3.84	4.24
Combined ($/boe)	66.04	49.68

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

2011 continued the upward trend in oil prices. WTI oil prices averaged US$94.97 per barrel in 2011, 20 percent higher than in 2010, but saw significant variability as concerns over the European debt crisis caused prices to fluctuate with a high of US$113.93 per barrel and a low of US$75.67 per barrel.

Natural gas prices continued to weaken in 2011 and were driven by elevated supply due to shale gas production and weak winter demand resulting from an unusually warm winter. The AECO daily spot price averaged $3.84/mcf in 2011 compared to $4.24/mcf in 2010. The Company's natural gas commands 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 protect acquisition economics as necessary. The total gain on risk management contracts was $2.7 million for 2011, which includes $0.2 million of non-cash gains.

At December 31, 2011, the following risk management contracts were outstanding:

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 C$91.00 WTI for 200 bbl/d.
(3) The counterparty has the option on June 29, 2012 to extend to December 31, 2012 at C$96.25 WTI.
(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 subsequent events section below)

Whitecap's risk management strategy is to transact with creditworthy counterparties to provide downside protection and minimize the price cap on its product. The Company has approval to hedge up to 65 percent of its most recent quarter's average daily production, net of royalties.

Operating Netbacks

The components of operating netbacks are shown below:

	Twelve months ended December 31,	
Netbacks ($/boe)	2011	2010
Total commodity revenue	66.04	49.68
Other income	0.51	0.64
Royalties	(7.93)	(7.44)
Operating expenses	(11.91)	(12.73)
Transportation expenses	(1.97)	(1.65)
Operating netbacks prior to hedging	44.74	28.50
Realized hedging gain (loss)	1.23	1.04
Operating netbacks[(1)]	45.97	29.54

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

For the twelve months ended December 31, 2011, royalties as a percentage of revenue were 12 percent compared to 15 percent in the prior year. Fourth quarter 2011 royalty rate was 10 percent compared to 15 percent in the same period in 2010. The decrease in the royalty rate was a result of new production from the Company's horizontal wells which qualified for the five percent royalty holiday under the Government of Alberta royalty framework. 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 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 and for a maximum of 24 months.

Operating costs in 2011 decreased 7 percent to $11.91 per boe compared to $12.73 per boe in the prior period due mainly to increased throughput in the current year. Fourth quarter 2011 operating costs decreased 32 percent to $12.02 per boe compared to $17.64 in the comparable period in 2010 due to a combination of a one-time 13th month adjustment in 2010 which resulted in higher operating costs in addition to higher throughput in 2011.

In 2011, the operating netback increased 56 percent to $45.97 per boe compared to $29.54 per boe in the prior period. Fourth quarter operating netbacks were $48.93 per boe in 2011 compared to $27.63 per boe in the fourth quarter of 2010. The increase is due to growth in high netback crude oil production and higher crude oil and NGL prices.

General and administrative ("G&A")

	Twelve months ended December 31,	
($000s)	2011	2010
G&A – gross	7,512	4,516
Overhead recoveries	(2,850)	(1,343)
Capitalized	(1,073)	(794)
G&A – cash	3,589	2,379
G&A – cash ($/boe)	1.74	4.55
Stock-based compensation	2,620	7,930
Capitalized stock-based compensation	(737)	(1,144)
	1,883	6,786
Total G&A	5,472	9,165

Cash G&A per boe decreased to $1.74/boe in 2011 compared to $4.55/boe in 2010. The decrease was mainly attributed to higher production volumes which more than offset the absolute increase in G&A.

Option-based Awards

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 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.

All performance warrants met their vesting requirements in 2010.

As at December 31, 2011, the Company had 3.9 million stock options and 1.6 million performance warrants outstanding. The options and warrants were issued at an average exercise price of $4.59 per option and $2.50 per warrant. Stock-based compensation expense of $2.6 million for the twelve months ended December 31, 2011 has been recognized with the offsetting amount recorded in contributed surplus.

Transaction Costs

($000s)	Twelve months ended December 31, 2011	2010
Total transaction costs	1,386	1,465

As a result of adopting IFRS 3 – "Business Combinations" effective January 1, 2010, the Company records transaction costs as general and administrative expenses. Transaction costs are costs related to finder's fees, advisory, legal and other professional fees. Transaction costs incurred in 2011 were related to costs incurred for the acquisition of Spry Energy Ltd. Transaction costs incurred in 2010 relate to costs related the reverse take-over of Spitfire Energy Ltd. and the transaction costs of the Onyx 2006 Inc. acquisition.

Interest and Financing Expenses

($000s)	Twelve months ended December 31, 2011	2010
Interest and fees on bank debt	4,180	1,068
Interest on debentures	-	747
Cash interest	4,180	1,815
Cash interest ($/boe)	2.02	3.47
Non-cash interest expense	-	169
Non-cash accretion expense	434	142
Non cash interest	434	311
Total interest and financing charges	4,614	2,126

Interest expense has increased compared to the prior period as a result of higher levels of bank debt from our 2011 development capital program and acquisitions, the cost of which exceeded funds from operations.

Depletion, Depreciation and Amortization ("DD&A")

($000s)	Twelve months ended December 31, 2011	2010
Depletion, depreciation and amortization	48,976	9,771
Per boe	23.72	18.68

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. The increase to the DD&A rate is mainly attributed to the cost of the acquired reserves in 2011 as well as higher future development costs relative to the initial reserve assignments.

Taxes
The Company has a deferred income tax expense of $9.2 million for the twelve months ended December 31, 2011.

The following 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

Cash Flow and Net Loss
Cash flow from operating activities for 2011 was $79.0 million compared to prior year cash flow of $5.6 million. Fourth quarter 2011 cash flow from operating activities was $27.5 million compared to $3.5 million in the fourth quarter of 2010. The significant increase in cash flow is a result of the Company’s growth in production volumes, the increase in prices received for crude oil and the related revenue generated.

Net income for the year ended was $25.5 million compared to a net loss of $8.3 million in of 2010. Fourth quarter 2011 net income was $3.2 million compared to a loss of $4.1 million in the fourth quarter of 2010. The significant improvement to earnings in 2011 is mainly attributed to increased production volumes and higher cash netbacks received.

Capital Expenditures

	Twelve months ended December 31,	
($000s)	2011	2010
Land and lease	4,284	916
Geological and geophysical	717	352
Drilling and completions net of drilling credits	107,517	32,321
Investment in facilities	26,793	6,648
Capitalized administration	1,073	766
Development capital	140,384	41,003
Office and other	74	127
Net property acquisitions	41,373	12,039
Corporate acquisitions (cash-based)	171,664	57,509
Total capital expenditures	353,495	110,678

For the year ended December 31, 2011, capital expenditures, excluding acquisitions, totaled $140.4 million with approximately 96 percent spent on drilling, completions and facilities.

West Central Alberta
In 2011 Whitecap continued to increase its presence in the Cardium light oil resource play with the acquisition of Spry and by drilling 37 (31.8 net) horizontal multi-fracture light oil wells with a 100 percent success rate. Whitecap was active throughout East Pembina, Willesden Green and Ferrier. We continue to maintain two drilling rigs to drill Cardium horizontal wells in 2012.

Peace River Arch
Whitecap realized cost and productivity improvements in 2011 with the continued development of the Montney Sexsmith light oil play. 7 (3.5 net) multi-fracture oil wells were drilled and 6 (3.0 net) wells were placed on production prior to year end. Whitecap also initiated a significant expansion of the Montney Sexsmith waterflood which is designed to improve oil recoveries.

Whitecap drilled an additional 8 (6.0 net) wells including 5 shallow light oil wells, 2 water source wells, and an exploratory well.

Saskatchewan
Whitecap drilled 6 (5.2 net) wells in 2011 developing the Roseray, Cantuar and Success medium gravity oil horizons. A major battery and water injection expansion is underway with a significant production increase anticipated for mid 2012. An additional 2 (1.2 net) wells were drilled in southeast Saskatchewan.

Acquisitions
On April 20, 2011, the Company closed the acquisition of Spry for $130.9 million in cash and the issuance of an aggregate of 8.2 million common shares.

In 2011, the Company completed various property acquisitions for $43.9 million which included the $25 million acquisition of a partner working interest to create equal ownership in the Valhalla pool at Peace River Arch. The company disposed of various non-core properties for $2.5 million in 2011.

Decommissioning Liability
At December 31, 2011, the Company recorded decommissioning liabilities of $23.3 million for future abandonment and reclamation of the Company's properties. Included in the decommissioning liability balance is $2.8 million related to liabilities incurred, $12.9 million related to liabilities acquired from corporate and property acquisitions, accretion of $0.4 million and revisions to estimates of $1.1 million. 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 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.

Equity
On March 29, 2011, the Company completed a bought deal public offering of 20.0 million subscription receipts at a price of $6.80 per subscription receipt for gross proceeds of $136.0 million. On April 8, 2011,

the over-allotment option associated with the bought deal public offering was exercised by the underwriters resulting in an additional 2.0 million subscription receipts issued at a price of $6.80 for gross proceeds of $13.6 million. Concurrent with the closing of the Spry acquisition, the outstanding subscription receipts were exchanged for common shares of Whitecap effective April 20, 2011.

The Company is authorized to issue an unlimited number of common shares. As at March 20, 2012 there were 89.0 million common shares, 4.2 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 and 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 December 31, 2011 the Company had $31.2 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 sufficient to satisfy the Company's capital program for the remainder of the 2012 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)	2012	2013	2014	2015+	Total
Operating lease - office building	991	972	972	2,423	5,358

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.

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 schedule 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 per Whitecap share and one subscription receipt of Whitecap (“Subscription Receipt”) at a price of $10.10 per subscription receipt. 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.

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.

Disclosure Controls and Procedures

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators, to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The CEO and the CFO have evaluated the effectiveness of Whitecap's disclosure controls and procedures as at December 31, 2011 and have concluded that such disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose any change in the Company's internal controls over financial reporting that occurred during the period from January 1, 2011 to December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes were identified during this period.

The CEO and the CFO have evaluated the effectiveness of Whitecap's internal controls over financial reporting as at December 31, 2011 and have concluded that such internal controls over financial reporting are effective. Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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, 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.

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 ("unaudited")

	2011				2010 – IFRS Comparatives			
($000s, except as noted)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total commodity revenue	47,482	38,372	34,271	16,245	9,746	7,778	3,999	4,468
Funds from operations(1)	32,962	26,059	19,857	8,285	3,554	3,868	1,840	1,988
Basic ($/share)	0.46	0.36	0.28	0.20	0.11	0.12	0.05	0.11
Diluted ($/share)	0.44	0.35	0.28	0.19	0.10	0.12	0.05	0.11
Net income (loss)	3,228	10,063	12,170	51	(4,117)	(3,537)	(1,199)	532
Basic ($/share)	0.04	0.14	0.19	0.00	(0.12)	(0.12)	(0.08)	0.03
Diluted ($/share)	0.04	0.14	0.18	0.00	(0.12)	(0.12)	(0.07)	0.03
Development capital expenditures	54,839	44,694	19,156	21,695	15,875	14,332	7,094	3,716
Net property acquisitions	(136)	6,405	9,947	25,177	8,728	1,424	303	1,584
Corporate acquisitions (cash-based)	-	-	171,664	-	-	49,608	7,900	-
Total assets	641,671	593,930	550,497	255,626	211,893	188,598	111,169	65,495
Bank debt and working capital(2)	158,811	137,045	111,888	71,680	29,545	46,674	21,014	13,574
Common shares outstanding (000s)(3)	72,191	72,168	72,162	41,828	41,826	31,448	22,259	15,333
Operational								
Average daily production								
Crude oil (bbls/d)	4,474	3,805	3,155	1,645	973	861	343	337
NGLs (bbls/d)	474	355	223	181	145	121	89	94
Natural gas (Mcf/d)	17,150	13,951	11,770	6,666	5,379	4,828	3,192	3,131
Total (boe/d)	7,806	6,485	5,339	2,937	2,014	1,787	964	953

Notes:
(1) Funds from operations are a non-GAAP measure. Refer to the Non-GAAP Measures section of the MD&A.
(2) Excludes risk management contracts.
(3) Reflects the 8.33 share exchange and 10 to 1 share consolidation.

In the second quarter of 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. On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap Resources Inc. and changed its name to Whitecap Resources Inc.

In the third quarter of 2010, the Company completed the acquisition of Onyx 2006 Inc. ("Onyx") for consideration of approximately $52.0 million. In connection with the acquisition of Onyx, Whitecap completed a bought deal finance offering of 8.9 million subscription receipts at $4.50 per subscription receipt for total gross proceeds of $40.1 million. The subscription receipts were exchanged for common shares effective July 30, 2010, in accordance with their terms.

In the fourth quarter of 2010, the Company completed a bought deal finance offering of 6.9 million common shares at $5.85 per common share for total gross proceeds of $40.4 million. Proceeds for the offering were used to initially reduce bank debt and subsequently used to purchase a partner's working interest in the Peace River Arch area. Additionally during the fourth quarter, the holders of the $10.0 million convertible debenture elected to convert the instrument into approximately 3.5 million common shares in accordance with its terms.

In the first quarter of 2011, the Company completed the acquisition of a partner's working interest in the Peace River Arch area of Alberta. The transaction created common ownership with one partner in the pool.

In the second quarter of 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 outstanding subscription receipts of Whitecap were exchanged for common shares of Whitecap effective April 20, 2011. The Spry acquisition increased our presence in the Cardium resource play and provided a significant increase in revenue and net income.

NON-GAAP MEASURES

This MD&A contains the terms “funds from operations” and “operating netbacks”, which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Whitecap uses funds from operations and operating netbacks to analyze financial and operating performance. Whitecap believes these benchmarks are key measures of profitability and overall sustainability for the Company. Both of these terms are commonly used in the oil and gas industry. Funds from operations and operating netbacks are not intended to represent operating profits nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds from operations are calculated as cash flows from operating activities excluding transaction costs and asset retirement settlements less changes in non-cash working capital. Operating netbacks are determined by deducting royalties, production expenses and transportation and selling expenses from oil and gas revenue. The Company calculates funds from operations per share using the same method and shares outstanding that are used in the determination of earnings per share.

	Twelve months ended December 31,	
($000s)	2011	2010
Cash flow from operating activities	79,008	5,635
Changes in non-cash working capital	6,702	4,160
Transaction costs	1,386	1,465
Settlement of decommissioning liabilities	67	-
Funds from operations	87,163	11,260

FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: the volume and product mix of Whitecap’s oil and gas production; 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 results from operations and operating costs and metrics; future costs, expenses and royalty rates; future development, exploration, acquisition and development activities (including drilling and development plans) and related capital expenditures and future taxes payable by Whitecap; and Whitecap’s tax pools.

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; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow to fund its planned expenditures; 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, 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).

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.