**WHITECAP RESOURCES INC.**
BALANCE SHEET

| As at<br>(CAD $000s) | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | **12** | 13 |
| Accounts receivable | **45,820** | 32,753 |
| Deposits and prepaid expenses | **1,835** | 1,241 |
| Risk management contracts [Notes 4 & 5] | **10,663** | - |
| Assets held for sale [Note 10] | **23,942** | - |
| | **82,272** | 34,007 |
| Risk management contracts and other [Notes 4, 5 & 20] | **1,055** | - |
| Property, plant and equipment [Notes 6 & 7] | **1,292,966** | 549,161 |
| Exploration and evaluation [Notes 6 & 8] | **33,100** | 15,408 |
| Goodwill [Notes 6 & 9] | **86,385** | 43,095 |
| | **1,495,778** | 641,671 |
| **Liabilities** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **102,393** | 62,014 |
| Risk management contracts | **-** | 5,318 |
| Liabilities associated with assets held for sale [Note 10] | **2,510** | - |
| | **104,903** | 67,332 |
| Bank debt [Note 11] | **310,700** | 130,804 |
| Decommissioning liability [Note 12] | **54,513** | 23,259 |
| Deferred income tax | **115,573** | 39,913 |
| | **585,689** | 261,308 |
| **Shareholders' Equity** | | |
| Share capital [Note 13] | **827,588** | 354,857 |
| Contributed surplus [Note 13] | **15,004** | 10,480 |
| Retained earnings | **67,497** | 15,026 |
| | **910,089** | 380,363 |
| | **1,495,778** | 641,671 |

*See accompanying notes to financial statements*

Approved on behalf of the Board:

Stephen C. Nikiforuk
*Director*

Grant B. Fagerheim
*Director*

**WHITECAP RESOURCES INC.**
STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31

| (CAD $000s, except per share amounts) | **2012** | 2011 |
|---|---|---|
| **Revenue** | | |
| Petroleum and natural gas sales | **305,770** | 137,432 |
| Royalties | **(35,061)** | (16,366) |
| | **270,709** | 121,066 |
| Gain on risk management contracts [Note 5] | **31,661** | 2,745 |
| | **302,370** | 123,811 |
| **Expenses** | | |
| Operating | **56,398** | 24,593 |
| Transportation | **12,145** | 4,078 |
| General and administrative [Notes 14 & 15] | **9,234** | 3,589 |
| Stock-based compensation | **3,876** | 1,883 |
| Transaction costs | **4,416** | 1,386 |
| Interest and financing | **12,893** | 4,614 |
| Depletion, depreciation and amortization [Note 7] | **116,096** | 48,075 |
| Exploration and evaluation [Note 8] | **3,502** | 901 |
| Loss on non-core asset disposition | **10,875** | - |
| | **229,435** | 89,119 |
| Net income before income taxes | **72,935** | 34,692 |
| **Taxes** | | |
| Deferred income tax expense [Note 17] | **20,464** | 9,180 |
| Net income and other comprehensive income | **52,471** | 25,512 |
| **Retained earnings (deficit), beginning of period** | **15,026** | (10,486) |
| **Retained earnings, end of period** | **67,497** | 15,026 |
| **Net income per share ($/share) [Note 16]** | | |
| Basic | **0.46** | 0.40 |
| Diluted | **0.45** | 0.39 |

*See accompanying notes to financial statements*

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

| (CAD $000s) | **2012** | 2011 |
|---|---|---|
| **Share Capital [Note 13(b)]** | | |
| Balance, beginning of year | **354,857** | 153,228 |
| Issued on exercise of options/warrants | **3,614** | 345 |
| Contributed surplus adjustment on exercise of options/warrants | **1,808** | 176 |
| Issued on the acquisition of Compass Petroleum Ltd. (“Compass”) | **106,020** | - |
| Issued for cash through public prospectus offering | **120,008** | 149,600 |
| Issued on the acquisition of Midway Energy Ltd. (“Midway”) | **246,427** | - |
| Issued on the acquisition of Spry Energy Ltd. (“Spry”) | **-** | 57,596 |
| Share issue costs, net of deferred income tax | **(5,146)** | (6,088) |
| Balance, end of period | **827,588** | 354,857 |
| **Contributed Surplus [Note 13(e)]** | | |
| Balance, beginning of year | **10,480** | 8,036 |
| Option-based awards | **5,142** | 2,620 |
| Warrants acquired | **1,190** | - |
| Option/warrant exercises | **(1,808)** | (176) |
| Balance, end of period | **15,004** | 10,480 |
| **Retained earnings (deficit)** | | |
| Balance, beginning of year | **15,026** | (10,486) |
| Net income | **52,471** | 25,512 |
| Balance, end of period | **67,497** | 15,026 |

*See accompanying notes to financial statements*

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

| (CAD $000s) | **2012** | 2011 |
|---|---|---|
| **Operating activities** | | |
| Net income for the period | **52,471** | 25,512 |
| Items not affecting cash: | | |
| Depletion, depreciation and amortization | **119,598** | 48,976 |
| Deferred income tax expense | **20,464** | 9,180 |
| Stock-based compensation | **3,876** | 1,883 |
| Non-cash financing expense [Note 12] | **1,025** | 434 |
| Unrealized gain on risk management contracts [Note 5] | **(18,840)** | (208) |
| Loss on non-core asset disposition [Note 10] | **10,875** | - |
| Settlement of decommissioning liabilities [Note 12] | **(1,197)** | (67) |
| | **188,272** | 85,710 |
| Net change in non-cash working capital items [Note 18] | **(14,737)** | (6,702) |
| | **173,535** | 79,008 |
| **Financing Activities** | | |
| Increase in bank debt | **179,897** | 113,250 |
| Issuance of share capital, net of share issue costs | **116,771** | 141,775 |
| | **296,668** | 255,025 |
| **Investing activities** | | |
| Expenditures on property, plant and equipment | **(246,156)** | (140,458) |
| Net expenditures on property acquisitions | **(3,842)** | (41,373) |
| Expenditures on corporate acquisitions [Note 6] | **(234,006)** | (171,664) |
| Net change in non-cash working capital items [Note 18] | **13,800** | 19,465 |
| | **(470,204)** | (334,030) |
| Increase (decrease) in cash, during the period | **(1)** | 3 |
| Cash, beginning of period | **13** | 10 |
| Cash, end of period | **12** | 13 |
| | | |
| **Cash interest paid** | **11,868** | 4,180 |

*See accompanying notes to financial statements*

## 1. NATURE OF BUSINESS

Whitecap Resources Inc. (also referred to herein as "Whitecap" or "the Company") is engaged in the acquisition, development, optimization and production of crude oil and natural gas in western Canada. The registered office is located at 500, 222-3rd Avenue SW, Calgary, Alberta, Canada, T2P 0B4.

## 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 financial statements have been prepared in accordance with IFRS as issued by IASB as at and for the year ended December 31, 2012 including 2011 comparative periods. The financial statements were authorized for issue by the Board of Directors on March 19, 2013.

### 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. 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.

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 capital expenditures on projects that are in progress are based on estimates.

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.

Estimated depletion, depreciation and amortization charges are based on estimates of oil and gas reserves that the Company expects to recover in the future.

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 is reported on 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, account receivable, loans and other receivables*

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments. Account 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.

A provision for impairment of account 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 receivable is impaired.

*Financial derivative instruments*

Financial derivative instruments are included in current assets/liabilities except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets/liabilities. The Company has not designated any of its financial derivative contracts as effective

accounting hedges and, accordingly, fair values its financial derivative contracts with the resulting gains and losses recorded in net income.

*Accounts payable, accrued liabilities and bank debt*
These financial instruments are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They 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 recognized on the statement of comprehensive income.

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 a gain or loss on disposal on 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.

**Assets Held for Sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the statement of income in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

**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 referencing the fair value of current arm's length transactions in the market to the carrying amount of E&E assets. 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 is 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. 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**

The Company has assessed the impact of the following standards and amendments and has determined that the adoption of the standards is not expected to have any material impact to the Company. The standards are to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard is listed below:

- IFRS 10, *Consolidated Financial Statements* - This standard provides a single model to be applied in control analysis for all investees including special purpose entities.

- IFRS 11, *Joint Arrangements* – This standard divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

- IFRS 12, *Disclosure of Interests in Other Entities* – This standard combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

- IFRS 13, *Fair Value Measurement* – This standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as 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.

As of January 1, 2015 , the Company will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces

the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's Financial Statements will not be known until the project is complete.

## 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) are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The market value of E&E assets are estimated with reference to the market values of current arm's length transactions in comparable locations.

(ii) Cash, accounts receivable, bank debt, accounts payable and accrued liabilities:
The fair value of cash, accounts receivable, bank debt, accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2012 and December 31, 2011, the fair value of these balances approximated their carrying value.

(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, accounts receivable, bank debt, accounts payable and accrued liabilities 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 or joint interest billings 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, 2012 | December 31, 2011 |
|---|---|---|
| Cash | 12 | 13 |
| Accounts receivable | 45,820 | 32,753 |
| | 45,832 | 32,766 |

The majority of the credit exposure on accounts receivable at December 31, 2012 pertains to accrued revenue for December 2012 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 25$^{th}$ day of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2012, 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 2012.

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, 2012, there was $1.4 million (December 31, 2011 – $0.7 million) of receivables aged over 90 days. Subsequent to December 31, 2012, approximately $0.7 million (December 31, 2011 – $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, 2012:

| ($000s) | <1 year | 1 to 2 years | Total |
|---|---|---|---|
| Accounts payable and accrued liabilities | 102,393 | - | 102,393 |
| Liabilities associated with assets held for sale | 2,510 | - | 2,510 |
| Bank debt | - | 310,700 | 310,700 |
| Total financial liabilities | 104,903 | 310,700 | 415,603 |

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 |

**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, 2012, 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 $30.2 million, whereas a 10 percent decrease would result in a positive impact of $29.6 million.

At December 31, 2012 the following risk management contracts were outstanding with a mark-to-market asset value of $10.7 million:

*Financial WTI Crude Oil Contracts*

| **Term** | | **Contract** | **Volume (bbl/d)** | **Sold Swap Price ($/bbl)** | **Index** |
|---|---|---|---|---|---|
| 01-Jan-13 | 28-Feb-13 | Swap | 300 | 102.00 | C$WTI |
| 01-Jan-13 | 28-Feb-13 | Swap | 300 | 95.00 | C$WTI |
| 01-Jan-13 | 30-Jun-13 | Swap | 500 | 102.52 | C$WTI |
| 01-Jan-13 | 30-Jun-13 | Swap | 1,000 | 97.50 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 106.38 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 95.18 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap(1) | 400 | 103.10 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 102.60 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap(2) | 1,000 | 100.85 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 97.10 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 97.00 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 1,000 | 92.00 | C$WTI |
| 01-Jan-13 | 31-Dec-13 | Swap | 500 | 91.00 | C$WTI |
| 01-Jul-13 | 31-Dec-13 | Swap | 500 | 95.00 | C$WTI |
| 01-Jan-14 | 30-Jun-14 | Swap | 1,000 | 94.10 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 92.22 | C$WTI |

| | | | | | |
|---|---|---|---|---|---|
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 91.00 | C$WTI |
| 01-Jul-13 | 31-Dec-13 | Swap | 500 | 91.00 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 2,000 | 91.82 | C$WTI |
| 01-Jan-15 | 31-Dec-15 | Swap | 1,000 | 90.00 | C$WTI |

| Term | | Contract | Volume (bbl/d) | Bought Put Price ($/bbl) | Sold Call Price ($/bbl) | Index |
|---|---|---|---|---|---|---|
| 01-Jan-13 | 31-Mar-13 | Collar | 300 | 95.00 | 105.40 | C$WTI |

Subsequent to the year, the Company entered into the following crude oil derivative contracts:

| Term | | Contract | Volume (bbl/d) | Sold Swap Price ($/bbl) | Index |
|---|---|---|---|---|---|
| 01-Jul-13 | 31-Dec-13 | Swap | 1,000 | 95.05 | C$WTI |
| 01-Jan-14 | 30-Jun-14 | Swap | 1,000 | 97.12 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 1,000 | 93.12 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 750 | 95.02 | C$WTI |
| 01-Jan-14 | 31-Dec-14 | Swap | 250 | 95.05 | C$WTI |
| 01-Jan-15 | 31-Dec-15 | Swap | 1,000 | 91.05 | C$WTI |

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

*Financial Natural Gas Derivative Contracts*

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

Subsequent to the year, the Company entered into the following natural gas derivative contracts:

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

*Financial Power Derivative Contracts*

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

*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, 2012 were to have increased by 25 basis points (0.25 percent) it is estimated that the Company's annual cash flows would decrease approximately $0.8 million (2011 - $0.2 million).

When assessing the potential impact of interest rate changes on the Company's interest rate swaps, the Company believes one percent interest rate volatility is a reasonable measure. A one percent increase or decrease in interest rate volatility would result in an impact of $0.1 million.

*Interest Rate Contracts*

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

*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. Foreign exchange risk is mitigated by entering into Canadian dollar denominated commodity risk management contracts.

**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) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Current assets | 71,609 | 34,007 |
| Current liabilities | (104,903) | (62,014) |
| Working capital deficit[1] | (33,294) | (28,007) |
| | | |
| Bank debt | 310,700 | 130,804 |
| Shareholders' equity | 910,089 | 380,363 |

Note:
(1) Excluding risk management contracts

## 6. ACQUISITIONS

### (a) Compass Petroleum Ltd.

On February 10, 2012, Whitecap acquired all the issued and outstanding shares of Compass for an aggregate purchase price of approximately $123.9 million which included $14.0 million payable in cash, assumed debt and working capital deficit of $3.9 million and 10.9 million common shares issued. The common shares issued were valued using the share price of Whitecap on February 10, 2012 of $9.74 per share.

The transaction closed on February 10, 2012 and had the acquisition been acquired as of January 1, 2012, an additional $3.2 million in revenue (net of royalties) would have been recognized. Net income is not readily determinable.

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

| Net assets acquired[1] ($000s): | |
|---|---|
| Working capital deficit | (3,943) |
| Petroleum and natural gas properties | 116,996 |
| Exploration and evaluation assets | 5,557 |
| Goodwill | 12,067 |
| Risk management asset | 286 |
| Decommissioning liability | (2,893) |
| Deferred income tax | (8,074) |
| | **119,996** |

| Consideration: | |
|---|---|
| Issuance of shares | 106,020 |
| Cash consideration | 13,976 |
| Total consideration | **119,996** |

Note:
(1) The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

### (b) Midway Energy Ltd.

On April 20, 2012, Whitecap acquired all the issued and outstanding shares of Midway for an aggregate purchase price of approximately $489.2 million which included $111.4 million payable in cash, assumed debt and working capital deficit of $131.4 million and 32.1 million common shares issued. The common shares issued were valued using the share price of Whitecap on April 20, 2012 of $7.68 per share.

The transaction closed on April 20, 2012 and had the acquisition been acquired as of January 1, 2012, an additional $10.4 million in revenue (net of royalties) would have been recognized. Net income is not readily determinable.

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

| Net assets acquired[1] ($000s): | |
|---|---|
| Working capital deficit | (6,108) |
| Petroleum and natural gas properties | 509,161 |
| Exploration and evaluation assets | 13,908 |
| Goodwill | 31,223 |
| Long-term debt | (125,281) |
| Risk management liability | (3,090) |
| Decommissioning liability | (12,016) |
| Deferred income tax | (48,827) |
| | **358,970** |

| Consideration: | |
|---|---|
| Issuance of shares | 246,427 |
| Warrants assumed | 1,190 |
| Cash consideration | 111,353 |
| Total consideration | **358,970** |

Note:
(1) The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

### (c) Property acquisitions

The Company acquired strategic properties and working interests that complement the existing assets in the west central area of Alberta and west central area of Saskatchewan. The property acquisitions were accounted for as business combinations under IFRS 3. Had the properties been acquired as of January 1, 2012, an additional $4.2 million in revenue (net of royalties) 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 | 22,588 |
| Exploration and evaluation assets | 10,110 |
| Decommissioning liability | (830) |
| | **31,868** |

| Consideration: | |
|---|---|
| Total consideration | **31,868** |

## 7. PROPERTY, PLANT AND EQUIPMENT

| Net book value ($000s) | December 31, 2012 | December 31, 2011 |
| --- | --- | --- |
| Petroleum and natural gas properties | 1,466,861 | 608,891 |
| Other assets | 783 | 353 |
| Property, plant and equipment, at cost | 1,467,644 | 609,244 |
| Less: accumulated depletion, depreciation and amortization | (174,678) | (60,083) |
| Total net carrying amount | 1,292,966 | 549,161 |

| Cost ($000s) | Oil and natural gas properties | Other assets | Total |
| --- | --- | --- | --- |
| Balance at January 1, 2011 | 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 | 608,891 | 353 | 609,244 |
| Acquisitions | 626,157 | - | 626,157 |
| Additions | 291,379 | 430 | 291,809 |
| Transfer to assets held for sale | (23,190) | | (23,190) |
| Disposals | (36,376) | - | (36,376) |
| Balance at December 31, 2012 | 1,466,861 | 783 | 1,467,644 |

The Company disposed of non-core properties for cash proceeds of $28.9 million (2011 - $2.5 million) which resulted in a non-cash loss recorded on the statement of comprehensive income of $10.9 million (2011 - nil).

| Depletion, depreciation and amortization ($000s) | Oil and natural gas properties | Other assets | Total |
| --- | --- | --- | --- |
| Balance at January 1, 2011 | 11,908 | 100 | 12,008 |
| Depletion, depreciation and amortization | 47,983 | 92 | 48,075 |
| Balance at December 31, 2011 | 59,891 | 192 | 60,083 |
| Depletion, depreciation and amortization | 115,948 | 148 | 116,096 |
| Disposals | (1,501) | - | (1,501) |
| Balance at December 31, 2012 | 174,338 | 340 | 174,678 |

At December 31, 2012, $23.5 million of salvage value (2011 – $10.2 million) was excluded from the depletion calculation. Future development costs of $513.1 million (2011 – $272.5 million) were included in the depletion calculation. The Company capitalized $3.3 million (2011 - $1.8 million) of administrative costs directly relating to development activities which includes $1.3 million (2011 - $0.7 million) of stock-based compensation.

## 8. EXPLORATION AND EVALUATION

| ($000s) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Exploration and evaluation assets | 37,503 | 16,309 |
| Less: accumulated land expiries and write-offs | (4,403) | (901) |
| Total net carrying amount | 33,100 | 15,408 |

| ($000s) | Undeveloped Land |
|---|---|
| Balance at January 1, 2011 | 8,960 |
| Acquisitions | 6,767 |
| Additions | 5,340 |
| Transfers to property, plant and equipment | (4,758) |
| Balance at December 31, 2011 | 16,309 |
| Acquisitions | 19,465 |
| Additions | 10,110 |
| Disposal | (6,158) |
| Transfer to assets held for sale | (752) |
| Transfers to property, plant and equipment | (1,471) |
| Balance at December 31, 2012 | 37,503 |

| Land expiries and write-offs ($000s) | Total |
|---|---|
| Balance at January 1, 2011 | - |
| Land expiries and write-offs | 901 |
| Balance at December 31, 2011 | 901 |
| Land expiries and write-offs | 3,502 |
| Balance at December 31, 2012 | 4,403 |

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, 2011 | - |
| Spry acquisition | 43,095 |
| Balance at December 31, 2011 | 43,095 |
| Compass acquisition (Note 6a) | 12,067 |
| Midway acquisition (Note 6b) | 31,223 |
| Balance at December 31, 2012 | 86,385 |

## 10. ASSETS HELD FOR SALE

In October 2012, the Company entered into a definitive agreement to sell a portion of its non-core assets. The designated assets classified as held for sale represent the lower of its carrying amount and the fair value less costs to sell of these assets. The associated liabilities relating to asset retirement obligation of $2.5 million have been reclassified to current liabilities. The disposition is expected to close on or before March 25, 2013.

## 11. CREDIT FACILITIES

As at December 31, 2012, the Company had a $450 million 364-day revolving credit facility with a syndicate of Canadian banks. The facility is available on a revolving basis for a period until May 30, 2013 and then for a further year under the term out provisions. Such initial term out date may be extended for further 364-day periods at the request of the Company, subject to approval by the banks. The credit facility provides that advances may be made by way of direct advances, banker's acceptances or letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances. The applicable margin charged by the bank is dependent upon the Company's net debt to annualized most recent quarter's funds from operations ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus an explicit stamping fee based upon the Company's net debt to annualized most recent quarter's funds from operations ratio. The credit facilities are secured by a fixed and floating charge debenture on the assets of the Company. As of December 31, 2012, the Company was compliant with all covenants provided for in the lending agreement.

## 12. DECOMMISSIONING LIABILITY

| ($000s) | |
|---|---|
| Balance, January 1, 2011 | 6,730 |
| Liabilities incurred | 2,764 |
| Liabilities acquired | 12,897 |
| Liabilities settled | (633) |
| Liabilities disposed | (67) |
| Revision in estimates | 1,134 |
| Accretion expense | 434 |
| Balance, December 31, 2011 | 23,259 |
| Liabilities incurred | 5,161 |
| Liabilities acquired | 15,739 |
| Liabilities settled | (1,197) |
| Liabilities disposed | (1,301) |
| Transfer to assets held for sale | (2,510) |
| Revision in estimates | 14,337 |
| Accretion expense | 1,025 |
| Balance, December 31, 2012 | 54,513 |

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. Liabilities acquired of $15.7 million are mainly attributed to the corporate acquisitions of Midway and Compass in 2012. Revision in estimates are mainly attributed to the change in discount rate used in the accounting for the decommissioning liabilities in the purchase price allocation. The key assumptions, on which the carrying amount of the decommissioning liability is based, include a risk-free rate of 2.3 percent and inflation rate of 2.0 percent. The total undiscounted amount of the estimated cash flows required to settle the obligations was $74.4 million (2011 – $31.4 million). The expected timing of payment of the cash flows required for settling the obligations extends up to 44 years.

## 13. SHARE CAPITAL

### a) Authorized

Unlimited number of common shares without nominal or par value.

### b) Issued and outstanding

| (000s) | Shares | $ |
|---|---|---|
| Balance, January 1, 2011 | 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[1] | 22,000 | 149,600 |
| Issued on the acquisition of Spry[2] | 8,228 | 57,596 |
| Share issue costs, net of deferred income tax | - | (6,088) |
| Balance, December 31, 2011 | 72,191 | 354,857 |
| Issued on exercise of options/warrants | 855 | 3,614 |
| Contributed surplus adjustment on exercise of options/warrants | - | 1,808 |
| Issued on the acquisition of Compass[3] | 10,885 | 106,020 |
| Issued for cash through public prospectus offering[4] | 11,882 | 120,008 |
| Issued on the acquisition of Midway[5] | 32,087 | 246,427 |
| Share issue costs, net of deferred income tax | - | (5,146) |
| Balance, December 31, 2012 | 127,900 | 827,588 |

Notes:

(1) 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.

(2) 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.

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

(4) On March 19, 2012, the Company completed a bought deal finance offering of 5.9 million units of Whitecap common shares at a price of $20.20 per subscription receipt for total gross proceeds of $120.0 million. Each unit was comprised of one subscription receipt at a price of $10.10 per subscription receipt and one common share at a price of $10.10 per common share. Each subscription receipt represented the right to acquire, without payment of additional consideration or further action, one common share upon closing of the previously announced plan of arrangement with Midway. Concurrent with the close of Midway on April 20, 2012, the subscription receipts were exchanged for Whitecap common shares.

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

### 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, 2011 | 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 |
| Granted | 2,196 | 7.37 |
| Exercised | (808) | 4.33 |
| Forfeited/expired | (162) | 6.15 |
| Balance, December 31, 2012 | 5,150 | 5.76 |

| Exercise Price ($) | Number Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise price ($/share) | Number Exercisable | Weighted Average Exercise Price ($/share) |
|---|---|---|---|---|---|
| 2.00-3.49 | 1,213 | 0.89 | 2.55 | 1,056 | 2.49 |
| 3.50-5.99 | 843 | 2.60 | 5.45 | 228 | 5.34 |
| 6.00-10.00 | 3,094 | 3.06 | 7.11 | 170 | 6.32 |
| 2.00 – 10.00 | 5,150 | 2.47 | 5.76 | 1,454 | 3.39 |

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:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 1.2% | 1.7% |
| Expected life (year) | 4 | 4 |
| Expected volatility | 47% | 51% |
| Forfeiture rate | 3.7% | 3.4% |
| Fair value ($/option) | $2.88 | $3.13 |

**d) Warrants**

On June 25, 2010, 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.

In connection with the acquisition of Midway, Whitecap entered into a supplemental warrant indenture whereby it assumed the obligations of Midway in respect of Midway's previously 3.0 million outstanding share purchase warrants that were issued by Midway in connection with a private placement completed in February 2012. As a result, each previously outstanding warrant to acquire a class A common share of Midway entitles the holder thereof to acquire 0.4802 of a Whitecap common share at a price of $4.00 per 0.4802 of a common share ($8.33 per whole Whitecap common share). The share purchase warrants are fully vested and expire February 15, 2013. (See note 21)

| (000s except per share amounts) | Number of Warrants | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, January 1, 2011 | 1,600 | 2.50 |
| Exercised | (3) | 2.50 |
| Balance, December 31, 2011 | 1,597 | 2.50 |
| Assumed | 1,379[1] | 8.33[1] |
| Exercised | (46) | 2.50 |
| Balance, December 31, 2012 | 2,930 | 5.24 |

| Exercise Price ($) | Number Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price ($/share) | Number Exercisable | Weighted Average Exercise Price ($/share) |
|---|---|---|---|---|---|
| 2.50 | 1,551 | 2.4 | 2.50 | 1,551 | 2.50 |
| 8.33 | 1,379[1] | 0.2 | 8.33[1] | 1,379 | 8.33 |
| 2.50-8.33 | 2,930 | 1.4 | 5.24 | 2,930 | 5.24 |

Note:
[1] For presentation purposes, the 3.0 million purchase warrants assumed from Midway have been presented at the exchange ratio of .4802 to one Whitecap share.

### e) Contributed Surplus

| ($000s) | |
|---|---|
| Balance, January 1, 2011 | 8,036 |
| Stock-based compensation | 2,620 |
| Option exercises | (163) |
| Warrant exercises | (13) |
| Balance, December 31, 2011 | 10,480 |
| Stock-based compensation | 5,142 |
| Warrants assumed | 1,190 |
| Option exercises | (1,632) |
| Warrant exercises | (176) |
| Balance, December 31, 2012 | 15,004 |

## 14. EXECUTIVE COMPENSATION

| | Twelve months ended December 31, | |
|---|---|---|
| ($000s) | 2012 | 2011 |
| Salaries and bonuses | 2,269 | 1,411 |
| Stock-based compensation | 1,085 | 888 |
| | 3,354 | 2,299 |

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

The Company has employment agreements with each of the officers. Under each agreement, the Company has agreed to compensate each executive in the event of the termination of employment or change in control: (i) for any reason except just cause, voluntary retirement, voluntary resignation, death or permanent incapacity, and (ii) if the officer terminates employment by giving thirty days' notice to the Company within ninety (90) days of a change of control.

Assuming that the triggering event occurred on December 31, 2012 a total salary and benefit compensation expense of $1.6 million would be paid. In addition, all of the executives' unexercised stock options would become fully vested upon a change of control. The options would have a value of $8.5 million.

## 15. EXPENSES BY NATURE

| | Twelve months ended December 31, | |
|---|---|---|
| ($000s) | 2012 | 2011 |
| Salaries and benefits | 10,869 | 4,160 |
| Professional services | 1,964 | 1,183 |
| Building leases | 1,091 | 946 |
| Other | 2,713 | 1,223 |
| Overhead recoveries | (5,370) | (2,850) |
| Capitalized salaries | (2,033) | (1,073) |
| | 9,234 | 3,589 |

## 16. PER SHARE RESULTS

| | Twelve months ended December 31, | |
|---|---|---|
| (000s except per share amounts) | 2012 | 2011 |
| Per share income | | |
| Basic | $0.46 | $0.40 |
| Diluted | $0.45 | $0.39 |
| Weighted average shares outstanding | | |
| Basic | 113,102 | 63,009 |
| Diluted | 115,484 | 65,007 |

## 17. INCOME TAXES

Income taxes for the years ended December 31, 2012 and 2011 are as follows:

Deferred tax:

| ($000s) | 2012 | 2011 |
|---|---|---|
| Origination and reversal of timing differences | 20,464 | 9,180 |
| Income tax expense | 20,464 | 9,180 |

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 entity as follows:

| | Twelve months ended December 31, | |
|---|---|---|
| ($000s) | 2012 | 2011 |
| Profit before tax at statutory rate | 18,378 | 9,228 |
| Increase (decrease) resulting from | | |
| Change in statutory rate and other | 933 | (549) |
| Non-deductible stock-based compensation | 977 | 501 |
| Non-deductible transaction costs | 176 | - |
| Income tax expense | 20,464 | 9,180 |

The weighted average applicable tax rate was 25.1 percent (2011 – 26.6 percent).
The analysis of deferred tax assets and deferred tax liabilities is as follows:

| ($000s) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Deferred tax assets | | |
| To be recovered after more than 12 months | (39,200) | (18,521) |
| To be recovered within 12 months | | - |
| Deferred tax liabilities | | |
| To be recovered after more than 12 months | 154,773 | 58,434 |
| To be recovered within 12 months | | - |
| Deferred tax liability (net) | 115,573 | 39,913 |

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, 2011 | 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 |
| Charged / (credited) to the income statement | 17,247 | 4,809 | 6 | (2,710) | 1,112 | 20,464 |
| Charged / (credited) directly to equity | - | - | - | - | (1,720) | (1,720) |
| Corporate acquisition | 71,468 | (688) | (3,927) | (9,484) | (460) | 56,909 |
| Other | 5,432 | - | (5,432) | - | 7 | 7 |
| At December 31, 2012 | 152,587 | 2,691 | (15,192) | (20,678) | (3,835) | 115,573 |

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

| ($000s) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Undepreciated capital cost | 169,147 | 89,770 |
| Canadian development expense | 381,611 | 125,779 |
| Canadian exploration expense | 17,909 | 11,331 |
| Canadian oil and gas property expense | 172,645 | 103,274 |
| Non-capital loss carry forward | 82,974 | 33,796 |
| Share issue costs | 15,310 | 10,894 |
| Total | 839,596 | 374,844 |

At December 31, 2012, the Company has non-capital losses of $83.0 million that expire between 2025 and 2030.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Accounts receivable | 4,664 | (16,475) |
| Prepaid and deposits | (3) | (262) |
| Accounts payable and accrued liabilities | (5,598) | 29,500 |
| Change in non-cash working capital | (937) | 12,763 |
| Related to: | | |
| Operating activities | (14,737) | (6,702) |
| Investing activities | 13,800 | 19,465 |

## 19. COMMITMENTS

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

| ($000s) | 2013 | 2014 | 2015 | 2016+ | Total |
|---|---|---|---|---|---|
| Operating lease - office building | 1,063 | 1,063 | 1,051 | 1,563 | 4,740 |

## 20. RELATED PARTY TRANSACTIONS

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

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, 2012, the Company incurred $0.6 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, 2012 no payable balance was outstanding.

## 21. SUBSEQUENT EVENTS

In connection with the acquisition of Midway, Whitecap entered into a supplemental warrant indenture whereby it assumed the obligations of Midway in respect of Midway's previously 3.0 million outstanding share purchase warrants that were issued by Midway in connection with a private placement completed in February 2012. As a result, each previously outstanding warrant to acquire a class A common share of Midway entitles the holder thereof to acquire 0.4802 of a Whitecap common share at a price of $4.00 per 0.4802 of a common share ($8.33 per whole Whitecap common share). Subsequent to year end 2.8 million Midway warrants were exercised and 0.2 million Midway warrants expired. Total proceeds of $11.3 million were received and accordingly 1.3 million Whitecap common shares were issued.

For 2013 our Board of Directors has approved an initial monthly dividend policy of $0.05 per share commencing January 2013 with the first dividend payment in February 2013. Our dividend policy is reviewed monthly and is based on a number of factors including current and future commodity prices, foreign exchange rates, our commodity hedging program, current operations and future investment opportunities. Each dividend declaration will be confirmed by a monthly press release.

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

On March 18, 2013, Whitecap and Invicta 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 Invicta (the "Transaction"). Invicta is a light oil-weighted public energy company with its operations immediately offsetting Whitecap's lands and Viking production in the Lucky Hills area of west central Saskatchewan. Under the terms of the Transaction, Invicta shareholders will receive, at their election, for each Invicta share held, either: (i) 0.05891 of a Whitecap common share; or (ii) $0.51911 in cash, subject to an aggregate cash maximum of $10.7 million. Whitecap will also assume the net debt of Invicta, estimated at $17.4 million, after accounting for costs, severance and option proceeds associated with the Transaction, as at March 31, 2013. The total Transaction value is approximately $60.2 million, including the assumption of net debt.