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 August 7, 2012 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the period ended June 30, 2012, as well as the audited annual financial statements and MD&A for the year ended December 31, 2011.

These financial statements have been prepared in accordance with IFRS in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2011.

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

DESCRIPTION OF BUSINESS

Whitecap is engaged in the acquisition, development, optimization and production of crude oil and natural gas in Western Canada.

2012 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Crude oil (bbls/d)	8,057	3,155	7,112	2,404
NGLs (bbls/d)	1,073	223	765	202
Natural gas (Mcf/d)	26,573	11,770	22,766	9,232
Total (boe/d)	13,559	5,339	11,672	4,145
Production split (%)				
Crude oil and NGL	67	63	67	63
Natural gas	33	37	33	37
Total	100	100	100	100

Production averaged 13,559 boe/d in the second quarter of 2012 compared to 5,339 boe/d in 2011, an increase of 154 percent. Year to date, production volumes increased 182 percent to 11,672 boe/d in 2012 from 4,145 boe per day in 2011. The increases in production are mainly attributed to the acquisition of Compass Petroleum Ltd. ("Compass") in the first quarter of 2012, the acquisition of Midway Energy Ltd ("Midway") in the second quarter of 2012 and the significant organic growth we have achieved on existing and acquired properties. 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 67 percent of total production compared to 63 percent in the prior year.

Revenue

A breakdown of revenue is as follows:

($000s)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Crude oil	59,461	28,336	109,402	40,954
NGLs	4,929	1,408	8,874	2,508
Natural gas	5,088	4,527	7,854	7,055
Total commodity revenue	69,478	34,271	126,130	50,516
Other revenue	87	226	417	340
Total	69,565	34,497	126,547	50,857

Total commodity revenue for the second quarter of 2012 increased 103 percent to $69.5 million from $34.3 million in the second quarter of 2011, an increase of $35.2 million of which $42.1 million is attributed to higher production volumes offset by $6.9 million due to lower realized prices. Total commodity revenue year to date increased 149 percent to $126.5 million from $50.9 million. The increase of $75.6 million consists of $81.3 million attributed to higher production volumes offset by $5.7 million due to lower realized prices.

Average benchmark and realized prices are as follows:

	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Benchmark prices				
WTI (US$/bbl)(1)	93.49	102.56	98.21	98.22
US$/C$ foreign exchange rate	1.01	0.96	1.01	0.98
WTI (C$/bbl)	94.44	98.95	98.77	95.81
AECO natural gas ($/Mcf)(2)	1.90	3.87	2.02	3.82
Average realized prices(3)				
Crude oil ($/bbl)	80.88	98.52	84.35	93.95
NGLs ($/bbl)	52.07	69.09	56.36	68.40
Natural gas ($/Mcf)	2.04	4.22	2.14	4.21
Combined ($/boe)	56.31	70.54	59.38	67.34

Notes:

(1) WTI represents posting prices of West Texas Intermediate oil.

(2) Represents the AECO daily posting.

(3) Prior to hedging gains and losses.

Prior to hedging activities Whitecap's weighted average realized price was $56.31 per boe in the second quarter of 2012, a decrease of 20 percent as compared to $70.54 per boe in 2011. The WTI oil price continues to be influenced by concerns of slow global economic growth and downward implications for oil demand, and partially offset by the risk of further supply disruptions in the Middle East. These factors will continue to influence global oil prices into 2013. The decrease mainly is attributed to an 18 percent reduction to Whitecap's realized crude oil price and a 52 percent reduction in Whitecap's realized natural gas price. Year to date, Whitecap's weighted average realized price prior to the impact of hedging activities was $59.38 per boe compared to the prior period of $67.34 per boe. The 12 percent decrease is mainly attributed to a ten percent reduction to the Company's realized crude price and a 49 percent reduction to its realized natural gas price.

US$WTI oil prices remained strong in the second quarter of 2012 averaging US$93.49 per barrel, 9 percent lower than in the comparable period in 2011. The higher crude oil price has been offset by widening light crude sales stream price differentials in the first half of 2012 driven by various factors including pipeline apportionment and refinery maintenance in addition to production increases in most oil sales streams and corresponding increased demand for pipeline capacity. The timing of these various issues has caused significant volatility in light crude differentials in Canada. In the second half of 2012 and through 2013 price differentials are expected to remain volatile and significantly wider than historical levels.

Natural gas prices continued to weaken in the second quarter of 2012 and were driven by elevated supply due to increased shale gas production in the United States and weak winter demand resulting from an unusually warm winter. Volumes of North American gas injected into storage continued to increase dramatically early in 2012 but have slowed at the end of the second quarter primarily due to increased gas fired power generation demand during times of excessively hot weather across the US. Sustained demand increases, signs of supply reductions and continued lowering of gas storage injections are required to strengthen natural gas prices. The AECO daily spot price averaged $1.90/Mcf compared to $3.87/Mcf in the comparable period. 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 project economics as necessary. The total gain on risk management contracts was $31.8 million for the second quarter of 2012, which includes $29.2 million of non-cash gains.

At June 30, 2012, the following risk management contracts were outstanding:

Financial WTI Crude Oil Contracts

Term		Contract	Volume (bbl/d)	Sold Swap Price ($/bbl)	Index
01-Jul-12	31-Dec-12	Swap	200	106.50	C$WTI
01-Jul-12	31-Dec-12	Swap	200	102.49	C$WTI
01-Jul-12	31-Dec-12	Swap	200	102.65	C$WTI
01-Jul-12	31-Dec-12	Swap	400	100.44	C$WTI
01-Jul-12	31-Dec-12	Swap	100	100.70	C$WTI
01-Jul-12	31-Dec-12	Swap	100	103.15	C$WTI
01-Jul-12	31-Dec-12	Swap	200	102.35	C$WTI
01-Jul-12	31-Dec-12	Swap	200	97.50	C$WTI
01-Jul-12	31-Dec-12	Swap	100	100.65	C$WTI
01-Jul-12	31-Dec-12	Swap	500	109.00	C$WTI
01-Jul-12	31-Dec-12	Swap	300	92.00	C$WTI
01-Jul-12	31-Dec-12	Swap	200	107.00	C$WTI
01-Jul-12	31-Dec-12	Swap	500	103.70	C$WTI
01-Jul-12	28-Feb-13	Swap	300	102.00	C$WTI
01-Jul-12	28-Feb-13	Swap	300	95.00	C$WTI
01-Jul-12	30-Jun-13	Swap	500	102.52	C$WTI
01-Jan-13	31-Dec-13	Swap	500	106.38	C$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

Term		Contract	Volume (bbl/d)	Bought Put Price ($/bbl)	Sold Call Price ($/bbl)	Index
01-Jul-12	31-Dec-12	Enhanced Collar(2)	600	80.00	108.00	C$WTI
01-Jul-12	31-Mar-13	Collar	300	95.00	105.40	C$WTI

Term		Contract	Volume (bbl/d)	Bought Call Price ($/bbl)	Sold Call Price ($/bbl)	Index
01-Jul-12	31-Dec-12	Call Option	400	95.00	100.00	C$WTI

Financial Natural Gas Derivative Contracts

Term		Contract	Volume (GJ/d)	Sold Swap Price ($/GJ)	Index
01-Jul-12	31-Oct-12	Swap	500	4.02	AECO
01-Jul-12	31-Dec-12	Swap	2,500	2.77	AECO
01-Jul-12	31-Dec-12	Swap	2,500	2.76	AECO
01-Jul-12	31-Dec-12	Swap	2,500	2.40	AECO
01-Jul-12	31-Dec-12	Swap	2,500	2.40	AECO
01-Jan-13	31-Dec-13	Swap	5,000	3.08	AECO
01-Jan-13	31-Dec-13	Swap	1,250	2.77	AECO
01-Jan-13	31-Dec-13	Swap	1,250	2.76	AECO

Financial Power Derivative Contracts

Term		Volume (MWh)	Average Swap Price ($/MWh)	Index
01-Jul-12	31-Dec-12	2,196	65.00	AESO
01-Jan-13	31-Dec-13	8,760	66.00	AESO

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) 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.

Subsequent to June 30, 2012, the Company entered into the following risk management contracts:

Financial Natural Gas Derivative Contracts

Term		Contract	Volume (GJ/d)	Sold Swap Price ($/GJ)	Index
01-Aug-12	31-Dec-12	Swap	2,500	2.50	AECO

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 Board of Directors' approval to hedge up to 65 percent of its most recent quarter's average daily production, net of royalties. Whitecap has hedged approximately 50 percent of its forecasted production volumes for the second half of 2012 at a weighted average crude oil price of $99.06 per barrel and a weighted average natural gas price of $2.61 per GJ.

Interest Rate Contracts

Term		Amount C$($000s)	Fixed Rate (%)	Index
01-Jul-12	31-Oct-12	90,000	1.02	CDOR
01-Jul-12	31-Oct-13	100,000	1.06	CDOR

Operating Netbacks

The components of operating netbacks are shown below:

	Three months ended	June 30,	Six months ended	June 30,
Netbacks ($/boe)	2012	2011	2012	2011
Total commodity revenue	56.31	70.54	59.38	67.34
Other income	0.07	0.47	0.20	0.45
Royalties	(6.72)	(8.82)	(7.18)	(9.04)
Operating expenses	(11.94)	(11.14)	(11.80)	(11.77)
Transportation expenses	(2.27)	(2.22)	(2.31)	(2.09)
Operating netbacks prior to hedging	35.45	48.83	38.29	44.89
Realized hedging gain (loss)	2.08	(2.58)	0.59	(2.32)
Operating netbacks(1)	37.53	46.25	38.88	42.57

Note:

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

For the three and six months ended June 30, 2012, royalties as a percentage of revenue were 12 percent compared to 13 percent in the comparable period. The decrease in the royalty rate was a result of new production from the Company's horizontal wells which qualified for the 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. The horizontal wells targeting the Viking oil pool qualify for the Government of Saskatchewan's reduced royalty rate of 2.5 percent for up to 37,700 boe of oil produced from the well. The applicable new oil royalty rate will apply thereafter.

Operating costs for the three months ended June 30, 2012 increased 7 percent to $11.94 per boe compared to $11.14 per boe in the prior period due mainly to increased production in West Central Saskatchewan which has a slightly higher per boe operating cost. Year to date operating costs are comparable to the prior period.

The operating netback decreased 19 percent in the second quarter to $37.53 per boe compared to $46.25 per boe in the prior period. Year to date the operating netback decreased 9 percent to $38.88 per boe compared to $42.57 per boe in the prior period. The decreases are mainly due to lower realized crude oil and natural gas prices offset by hedging gains and decreased royalties per boe in 2012.

General and administrative ("G&A")

	Three months ended	June 30,	Six months ended	June 30,
($000s)	2012	2011	2012	2011
G&A – gross	3,112	2,139	7,056	3,489
Overhead recoveries	(406)	(603)	(2,058)	(1,041)
Capitalized	(368)	(267)	(1,093)	(473)
Net G&A	2,338	1,269	3,905	1,975
Net G&A ($/boe)	1.89	2.61	1.84	2.63

Net G&A per boe decreased to $1.89/boe for the three months ended June 30, 2012 compared to $2.61/boe in 2011. Year to date net G&A of $1.84 per boe for the six months ended June 30, 2012 compared to $2.63 per boe in 2011. The decrease was mainly attributed to higher production volumes which more than offset the absolute increase in G&A.

Option-based Awards

	Three months ended	June 30,	Six months ended	June 30,
($000s)	2012	2011	2012	2011
Stock-based compensation	1,237	530	2,294	808
Capitalized stock-based compensation	(495)	(130)	(771)	(210)
	742	400	1,523	598

As at June 30, 2012, the Company had 4.7 million stock options and 1.6 million performance warrants outstanding. The options and warrants were issued at an average exercise price of $5.34 per option and $2.50 per warrant. Stock-based compensation expense of $0.7 million and 1.5 million for the three and six months ended June 30, 2012, respectively was recognized with the offsetting amount recorded in contributed surplus.

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 will now entitle 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.

There are a total of 4.6 million warrants outstanding which are exchangeable for 3.0 million common shares.

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

Transaction Costs

	Three months ended	March 31,	Six months ended	June 30,
($000s)	2012	2011	2012	2011
Total transaction costs	2,650	1,273	3,214	1,273

Transaction costs are the incremental costs incurred related to an acquisition, such as finder's fees, advisory, legal and other professional fees. Transaction costs incurred for the period ended were related to costs incurred for the acquisition of Compass and Midway.

Interest and Financing Expenses

	Three months ended	June 30,	Six months ended	June 30,
($000s)	2012	2011	2012	2011
Interest and fees on bank debt	3,472	1,264	4,911	1,738
Non-cash accretion expense	278	139	447	206
Total interest and financing charges	3,750	1,403	5,358	1,944

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

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

($000s)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Depletion, depreciation and amortization	29,076	12,471	49,358	18,277
$ per boe	23.56	25.67	23.23	24.36

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 as well as higher future development costs relative to the initial reserve assignments.

Exploration and Evaluation Asset expiries
During the three and six month period ended June 30, 2012, $0.7 million and $1.5 million of costs associated with expired mineral leases were recognized as an expense compared to the comparable period of nil. The Company added $5.6 million and $13.9 million, respectively in undeveloped land in connection with the Compass and Midway acquisitions in 2012.

Taxes
The Company has a deferred income tax expense of $9.4 million and $12.6 million respectively for the three and six months ended June 30, 2012, respectively.

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

($000s)	June 30, 2012	December 31, 2011
Undepreciated capital cost	158,522	89,770
Canadian development expense	345,644	125,779
Canadian exploration expense	25,175	11,331
Canadian oil and gas property expense	204,838	103,274
Non-capital loss carry forward	71,571	33,796
Share issue costs	17,800	10,894
Total	823,550	374,844

Cash Flow and Net Income
Cash flow from operating activities for the three months ended June 30, 2012 was $10.8 million compared to prior year cash flow of $17.3 million. For the six months ended June 30, 2012, cash flow from operating activities was $45.8 million compared to prior year cash flow of $26.6 million. The significant increases in cash flow are a result of the Company's growth in production volumes.

Net income for the three months ended was $26.5 million compared to a net income of $12.2 million in the comparable period. Net income for the six months ended June 30, 2012 was $34.2 million compared to $12.2 million in the first six months of 2011. The significant improvement to earnings is mainly attributed to increased production volumes and unrealized gains on financial instruments.

Capital Expenditures

($000s)	Three months ended 2012	June 30, 2011	Six months ended 2012	June 30, 2011
Land and lease	1,745	237	1,761	300
Geological and geophysical	601	445	1,357	526
Drilling and completions net of drilling credits	33,684	13,517	92,119	32,580
Investment in facilities	3,269	4,731	7,083	6,983
Capitalized administration	368	226	1,094	472
Development capital	39,667	19,156	103,414	40,861
Office and other	109	8	129	8
Net property acquisitions	3,087	9,947	8,920	35,114
Corporate acquisitions	523,069	219,692	645,622	219,692
Total capital expenditures	565,932	248,803	758,085	295,675

For the three and six months ended June 30, 2012, capital expenditures, excluding acquisitions, totaled $39.7 million and $103.4 million respectively with over 93 percent spent on drilling, completions and facilities.

Greater Pembina

Whitecap continued to develop the Cardium resource play in the second quarter by drilling 6 (4.9 net) horizontal multi-fracture light oil wells. Whitecap will continue to manage 1-2 drilling rigs for the Pembina, Willesden Green and Ferrier areas to drill Cardium horizontal wells.

Garrington

Whitecap drilled 5 (4.9 net) horizontal Cardium wells in the newly acquired Garrington field. Whitecap will continue to manage 1-2 drilling rigs for Garrington to drill Cardium horizontal wells.

Peace River Arch Alberta

Whitecap drilled 2 (1.0 net) horizontal Montney multi-fracture oil wells targeting the Sexsmith sand and 2 (1.8 net) shallow horizontal oils wells.

Whitecap continued to optimize the injection facilities associated with the Sexsmith waterflood.

West Central Saskatchewan

Whitecap drilled 8 (3.8 net) horizontal Viking oil wells in the Dodsland area. All wells are at various stages of completion due to exceptionally wet spring conditions. One rig will continue to drill this program for the balance of 2012.

Acquisitions

On April 20, 2012, the Company closed the acquisition of Midway for $111.4 million in cash and the issuance of an aggregate of 32.1 million common shares.

In the second quarter, the Company closed complementary Cardium property acquisitions for a total of $3.1 million.

Decommissioning Liability

At June 30, 2012, the Company recorded decommissioning liabilities of $59.6 million for future abandonment and reclamation of the Company's properties. Included in the decommissioning liability balance is $1.9 million related to liabilities incurred, $18.3 million related to liabilities acquired from corporate and property acquisitions, accretion of $0.5 million and revisions to estimates of $16.2 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 June 30, 2012, the Company had a $400 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, 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 June 30, 2012, 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 for the fall of 2012.

Equity

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

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

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

The Company is authorized to issue an unlimited number of common shares. As at August 8, 2012 there were 127.1 million common shares, 5.8 million stock options and 4.6 million warrants outstanding. The warrants outstanding are exchangeable for 3.0 million common shares.

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 June 30, 2012 the Company had $74.7 million of unutilized credit to cover any working capital deficiencies. The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through available credit facilities combined with anticipated funds from operations. Present sources of capital are currently anticipated to be sufficient to satisfy the Company's current 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	452	905	905	2,370	4,632

As a result of flow-through shares issued by Midway, Whitecap is committed to spend approximately $1.3 million on qualified exploration expenditures by December 31, 2012.

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

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

- estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and expenses have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated depletion, depreciation and accretion that are based on estimates of oil and gas reserves that the Company expects to recover in the future, commodity prices, estimated future salvage values and estimated future capital costs;
- estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices and foreign exchange rates;
- estimated value of decommissioning liabilities that are dependent upon estimates of future costs, timing of expenditures and the risk free rate;
- estimated income and other tax liabilities requiring interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time;
- estimated stock-based compensation expense using the Black-Scholes option pricing model.
- estimated fair value of business combinations and goodwill requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of PP&E and E&E assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices, and discount rates.

The Company has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

Business Risks
Whitecap's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different-sized companies. Whitecap is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, 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	
($000s, except as noted)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total commodity revenue	69,478	56,652	47,482	38,372	34,271	16,245	9,746	7,778
Funds from operations[1]	40,132	33,271	32,962	26,059	19,858	8,286	3,554	3,868
Basic ($/share)	0.34	0.42	0.46	0.36	0.30	0.20	0.11	0.12
Diluted ($/share)	0.33	0.41	0.44	0.35	0.29	0.19	0.10	0.12
Net income (loss)	26,536	7,678	3,228	10,063	12,169	50	(4,117)	(3,537)
Basic ($/share)	0.22	0.10	0.04	0.14	0.19	0.00	(0.12)	(0.12)
Diluted ($/share)	0.22	0.09	0.04	0.14	0.18	0.00	(0.12)	(0.12)
Development capital expenditures	39,667	63,747	54,839	44,694	19,156	21,705	15,875	14,332
Net property acquisitions	3,087	5,833	(136)	6,405	9,947	25,167	8,728	1,424
Corporate acquisitions	523,069	122,553	-	-	219,692	-	-	62,928
Total assets	1,439,857	823,679	641,671	593,930	550,497	255,626	211,893	188,598
Bank debt and working capital[2]	347,639	156,411	158,811	137,045	111,888	71,680	29,545	46,674
Common shares outstanding (000s)[3]	127,091	89,056	72,191	72,168	72,162	41,828	41,826	31,448
Operational								
Average daily production								
Crude oil (bbls/d)	8,057	6,168	4,474	3,805	3,155	1,645	973	861
NGLs (bbls/d)	1,073	457	474	355	223	181	145	121
Natural gas (Mcf/d)	26,573	18,959	17,150	13,951	11,770	6,666	5,379	4,828
Total (boe/d)	13,559	9,785	7,806	6,485	5,339	2,937	2,014	1,787

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 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 Energy Ltd. (“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.

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

In the second quarter of 2012, the Company acquired Midway for total consideration of approximately $357.8 million providing us a significant increase in our Cardium inventory and increasing our low risk drilling opportunities.

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.

($000s)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Cash flow from operating activities	10,828	17,294	45,748	26,586
Changes in non-cash working capital	26,588	1,291	23,908	285
Transaction costs	2,650	1,273	3,214	1,273
Settlement of decommissioning liabilities	66	-	533	-
Funds from operations	40,132	19,858	73,403	28,144

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 ("DC&P) and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that material information relating to Whitecap is made known to the CEO and CFO by others and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by Whitecap under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

The CEO and CFO are required to cause the Company to disclose any change in the Company's ICOFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICOFR. No changes in ICOFR were identified during such period that have materially affected or are reasonably likely to materially affect, the Company's ICOFR.

It should be noted a control system, including the Company's DC&P and ICOFR can provide only reasonable, not absolute, assurance that the objective of the control system will be met and it should not be expected that DC&P and ICOFR will prevent all errors or fraud.

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, plans and focus (including drilling and development plans) and related capital expenditures, Whitecap's ability to fund its current capital program for the remainder of the year, anticipated scheduling of Whitecap's review of its credit arrangements with its lenders, 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; the impact of increasing competition; the general stability of the economic and political environment in which Whitecap operates; the ability of Whitecap to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; field production rates and decline rates; the ability to reduce operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future petroleum and natural gas prices; currency, exchange and interest rates; and the continued availability of adequate debt and equity financing and cash flow to fund its planned expenditures; Whitecap believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Whitecap's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Whitecap or by third party operators of Whitecap's properties, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of acquisitions, delays resulting from or inability to obtain require regulatory approvals, increased debt levels or debt service requirements; inaccurate estimation of Whitecap's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Whitecap's public disclosure documents (including, without limitation, those risks identified in this MD&A) and may be accessed through the SEDAR website (www.sedar.com).

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and none of Whitecap or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.