MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Whitecap Resources Inc. (the "Company" or "Whitecap") is dated March 19, 2013 and should be read in conjunction with the Company's audited annual financial statements and related notes for the year ended December 31, 2012. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2012.

The annual financial statements of Whitecap have been prepared by management and approved by the Company's Board of Directors. On January 1, 2011, Whitecap adopted IFRS for financial reporting purposes.

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 ANNUAL FINANCIAL AND OPERATIONAL RESULTS

Production

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

		Year ended December 31,
	2012	2011
Crude oil (bbls/d)	8,612	3,279
NGLs (bbls/d)	998	309
Natural gas (mcf/d)	26,650	12,417
Total (boe/d)	14,052	5,657
Production split (%)		
Crude oil and NGL	68	63
Natural gas	32	37
Total	100	100

Average production volumes increased 148 percent to 14,052 boe/d in 2012 from 5,657 boe/d in 2011 while fourth quarter 2012 production volumes increased 118 percent to 17,018 boe/d compared to 7,806 boe/d in the prior period. The increases in production are mainly attributed to the Compass Petroleum Inc. ("Compass") acquisition on February 10, 2012 and the Midway Energy Ltd. ("Midway") acquisition on April 20, 2012 in addition to the significant organic growth achieved through the effective execution of our capital program. Our crude oil and NGL weighting has also increased five percent to 68 percent compared to the prior year.

Revenue

A breakdown of revenue is as follows:

		Year ended December 31,
($000s)	2012	2011
Crude oil	262,730	111,984
NGLs	25,184	8,004
Natural gas	17,856	17,444
Petroleum and natural gas sales	305,770	137,432

Petroleum and natural gas sales in 2012 increased 122 percent to $305.8 million from $137.4 million. The increase of $168.3 million consists of $182.2 million attributed to higher production volumes offset by $13.9 million due to lower realized prices. Petroleum and natural gas sales for the fourth quarter of 2012 increased 98 percent to $93.9 million from $47.5 million in the fourth quarter of 2011, an increase of $46.4 million of which $50.8 million is attributed to higher production volumes offset by $4.4 million due to lower realized prices.

Average benchmark and realized prices are as follows:

	Year ended December 31,	
	2012	2011
Benchmark prices		
WTI (US$/bbl)[1]	94.21	94.97
USD – CAD foreign exchange rate	1.00	0.99
WTI (C$/bbl)	94.15	93.85
Edmonton Par (C$/bbl)	86.31	95.27
AECO natural gas ($/mcf)[2]	2.39	3.62
Average realized prices[3]		
Crude oil ($/bbl)	83.22	93.20
NGLs ($/bbl)	48.76	70.84
Natural gas ($/mcf)	2.58	3.84
Combined ($/boe)	59.46	66.55

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

In 2012, Whitecap's weighted average realized price prior to the impact of hedging activities was $59.46 per boe compared to the prior period of $66.55 per boe. Prior to hedging activities Whitecap's weighted average realized price was $59.97 per boe in the fourth quarter of 2012, a decrease of ten percent as compared to $66.89 per boe in 2011.

US$ WTI prices remained strong in 2012 averaging $94.21 per barrel compared to $94.97 per barrel in the prior year. However, the light sweet crude price differential to WTI was very volatile due to continuous increases to light oil supply, subsequent pipeline capacity constraints and reduced light oil refining capacity throughout North America in 2012.

Our outlook remains positive for Canadian light sweet crude prices as a variety of new pipeline expansion projects to provide increased access to eastern Canadian and Gulf Coast refineries, as well as new off-shore markets, have been announced and are in various stages of review and approval. Opportunities to move oil by rail continue to grow and provide new outlets for access to North American refineries otherwise not reachable via existing pipeline infrastructure. Whitecap is currently railing 600 bbls/day in west central Saskatchewan.

The AECO daily spot price averaged $2.39 per mcf in 2012 compared to $3.62 per mcf in 2011, a reduction of 34 percent. This decrease is mainly attributed to record high United States gas production and storage inventory levels in 2012. Natural gas prices remained weak for the majority of 2012 but increased demand for natural gas fired power generation in the United States and nuclear power plant outages due to tropical storm Sandy resulted in a stronger natural gas price in the fourth quarter of 2012. The Company's natural gas receives a modest premium to the Alberta natural gas spot benchmark price due to its higher heat content.

Risk Management and Hedging Activities

Whitecap maintains an ongoing risk management program to reduce the volatility of revenues in order to fund capital expenditures and protect project economics as necessary. 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 75 percent of its most recent quarter's average daily production, net of royalties.

The Company realized a gain of $31.7 million on its risk management contracts in 2012. The unrealized loss is a result of the non-cash change in the mark-to-market values period over period.

Risk Management Contracts ($000s)	2012	2011
Realized gain on risk management contracts	12,821	2,537
Unrealized gain on risk management contracts	18,840	208
Total gain on risk management contracts	31,661	2,745

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 year end, 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 Contracts

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

Operating Netbacks

The components of operating netbacks are shown below:

Netbacks ($/boe)	Year ended December 31, 2012	2011
Petroleum and natural gas sales	59.46	66.55
Royalties	(6.82)	(7.93)
Operating expenses	(10.97)	(11.91)
Transportation expenses	(2.36)	(1.97)
Operating netbacks prior to hedging	39.31	44.74
Realized hedging gain	2.49	1.23
Operating netbacks[1]	41.80	45.97

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

For the twelve months ended December 31, 2012, royalties as a percentage of revenue was 11 percent, consistent with 12 percent in the prior year. The fourth quarter 2012 royalty rate was 12 percent compared to 10 percent in the same period in 2011. The increase in the fourth quarter of 2012 compared

to the fourth quarter of 2011 was due to favourable annual Crown Royalty adjustments booked in the fourth quarter of 2011.

The horizontal wells targeting the Montney Sexsmith pool at Peace River Arch qualify for the five percent royalty rate on up to 70,000 to 80,000 boe of production and for a maximum of 30 to 36 months depending on measured depth drilled. In west central Alberta, the horizontal wells drilled qualify for the five percent royalty rate on up to 60,000 boe of production and for a maximum of 24 months. The horizontal wells targeting the Viking oil pool qualify for the Government of Saskatchewan's reduced royalty rate of 2.5 percent for up to 37,700 barrels of oil produced from the well. The applicable new oil royalty rate will apply thereafter.

Operating costs in 2012 decreased 8 percent to $10.97 per boe compared to $11.91 per boe in the prior period. Fourth quarter 2012 operating costs decreased 17 percent to $9.95 per boe compared to $12.02 per boe in the prior period. The decrease in operating costs on a per boe basis is attributed to the incremental organic production growth in our core areas and continued focus on operational efficiencies.

Transportation costs in 2012 increased 20 percent to $2.36 per boe compared to $1.97 per boe in the prior period. Fourth quarter transportation costs increased 50 percent to $2.38 per boe compared to $1.59 per boe in the prior period. The increase in transportation costs over the comparable periods in 2011 is attributed to the west central Saskatchewan properties acquired in 2012 which have higher transportation cost per boe.

In 2012 the operating netback decreased nine percent to $41.80 per boe compared to $45.97 per boe in the prior period. The operating netback decreased eight percent in the fourth quarter to $44.92 per boe compared to $48.93 per boe in the prior period. The decreases are mainly due to lower realized commodity prices offset by hedging gains and lower royalty and operating costs per boe in 2012.

General and administrative ("G&A")

($000s)	2012	Year ended December 31, 2011
G&A – gross	16,637	7,512
Overhead recoveries	(5,370)	(2,850)
Capitalized	(2,033)	(1,073)
Net G&A	9,234	3,589
Net G&A ($/boe)	1.80	1.74

Net G&A per boe remained consistent at $1.80/boe in 2012 compared to $1.74/boe in 2011. The absolute increase to $9.2 million in 2012 compared to $3.6 million in 2011 is due to the growth in staff as a result of an increase to the magnitude and scale of the company's operations.

Option-based Awards

($000s)	2012	Year ended December 31, 2011
Stock-based compensation	5,143	2,620
Capitalized stock-based compensation	(1,267)	(737)
	3,876	1,883

As at December 31, 2012, the Company had 5.2 million stock options and 1.6 million performance warrants outstanding (excluding warrants assumed from Midway). The options and warrants were issued at a weighted average exercise price of $5.76 per option and $2.50 per warrant. Stock-based compensation expense of $3.9 million for the twelve months ended December 31, 2012 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 3.0 million outstanding share purchase warrants that were issued 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 expired February 15, 2013. (See subsequent events section).

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

	Year ended December 31,	
($000s)	2012	2011
Total transaction costs	4,416	1,386

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 are mainly attributable to costs incurred for the acquisition of Compass and Midway and costs related to non-core asset disposals.

Interest and Financing Expenses

	Year ended December 31,	
($000s)	2012	2011
Interest and fees on bank debt	11,868	4,180
Non-cash accretion expense	1,025	434
Total interest and financing charges	12,893	4,614

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

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

	Year ended December 31,	
($000s)	2012	2011
Depletion, depreciation and amortization	116,096	48,075
$ per boe	22.63	23.28

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

Exploration and Evaluation Asset Expiries

During the year ended December 31, 2012, $3.5 million of costs associated with expired mineral leases were recognized as an expense compared to the prior periods of $0.9 million. The expired mineral leases are mainly attributed to non-core areas. The Company added $5.6 million and $13.9 million, respectively of undeveloped land in connection with the Compass and Midway acquisitions in 2012.

Taxes

The Company has a deferred income tax expense of $20.5 million for the year ended December 31, 2012.

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

Cash Flow and Net Income

Cash flow from operating activities for 2012 was $173.5 million compared to prior year cash flow of $79.0 million. Cash flow from operating activities for the fourth quarter 2012 was $83.7 million compared to $27.5 million in the fourth quarter of 2011. The significant increases in cash flow are mainly attributed to the Company's growth in production volumes.

Net income for the year ended December 31, 2012 was $52.5 million compared to $25.5 million in 2011. Net income for the fourth quarter of 2012 was $7.6 million compared to a net income of $3.2 million in the comparable period. The significant improvement to earnings is mainly attributed to increased production volumes and unrealized gains on financial instruments offset by a loss on sale of non-core properties.

Capital Expenditures

($000s)	Year ended December 31, 2012	2011
Land and lease	5,546	4,284
Geological and geophysical	1,625	717
Drilling and completions net of drilling credits	217,593	107,517
Investment in facilities	18,929	26,793
Capitalized administration	2,033	1,073
Development capital	245,726	140,384
Office and other	430	74
Net property acquisitions	3,842	41,373
Corporate acquisitions	645,622	219,692
Total capital expenditures	895,620	401,523

For the year ended December 31, 2012, capital expenditures, excluding acquisitions, totaled $245.7 million with over 96 percent spent on drilling, completions and facilities.

In west central Alberta, Whitecap continued to increase its presence in the Cardium resource play in 2012 with the acquisition of Midway and by drilling 54 (42.9) horizontal multi-fracture light oil wells. This includes 17 (15.8 net) wells drilled in the Garrington field which was acquired with Midway.

In the Peace River Arch area of Alberta, Whitecap drilled 4 (3.2 net) Doe Creek horizontal oil wells, 4 (3.0 net) Montney Sexsmith horizontal oil wells, 1 (1.0 net) Middle Montney horizontal oil well, and 1 (1.0 net) Dunvegan horizontal oil well in 2012.

Since acquiring Compass in February 2012, Whitecap has drilled 41 (35.2 net) horizontal Viking oil wells in the Dodsland area of Saskatchewan and has been able to lower capital costs and increase the IP(30) rates for this light oil resource play.

In southwest Saskatchewan, Whitecap drilled 5 (4.7 net) wells in the greater Fosterton area targeting the Roseray, Success, and Cantuar formations.

Decommissioning Liability

At December 31, 2012, the Company recorded decommissioning liabilities of $54.5 million for future abandonment and reclamation of the Company's properties. Estimates are based on both operational knowledge of the properties and industry guidance provided by the ERCB. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined.

Capital Resources and Liquidity

Credit Facility

As at 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.

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 March 19, 2013 there were 130.5 million common shares, 4.0 million stock options and 1.6 million warrants outstanding.

Liquidity

The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements, dividend payments and provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds from operations, existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a long-term liability as it is a revolving facility with no expected repayment requirements for the next year. The Company generates positive operating cash flow. At December 31, 2012 the Company had $139.3 million of unutilized credit to cover any working capital deficiencies. The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through available credit facilities combined with anticipated funds from operations. Present sources of capital are currently anticipated to be sufficient to satisfy the Company's capital program and dividend payments for the 2013 fiscal year.

Contractual Obligations

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

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

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.

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 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.

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.

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.

Disclosure Controls and Procedures

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

The CEO and the CFO have evaluated the effectiveness of Whitecap's disclosure controls and procedures as at December 31, 2012 and have concluded that such disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose any change in the Company's internal controls over financial reporting that occurred during the period from January 1, 2012 to December 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes were identified during this period.

The CEO and the CFO have evaluated the effectiveness of Whitecap's internal controls over financial reporting as at December 31, 2012 and have concluded that such internal controls over financial reporting are effective. Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Business Risks

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

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

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

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

jointly-owned properties to maintain operational control.

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

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

Environmental Risks

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

Summary of quarterly results

	2012				2011			
($000s, except as noted)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Petroleum and natural gas sales	93,896	85,327	69,565	56,982	48,033	38,543	34,497	16,359
Funds from operations[1]	63,588	56,894	40,132	33,271	32,962	26,059	19,857	8,285
Basic ($/share)	0.50	0.45	0.34	0.42	0.46	0.36	0.30	0.20
Diluted ($/share)	0.49	0.44	0.33	0.41	0.44	0.35	0.29	0.19
Net income (loss)	7,579	10,678	26,536	7,678	3,228	10,063	12,170	51
Basic ($/share)	0.06	0.08	0.22	0.10	0.04	0.14	0.19	0.00
Diluted ($/share)	0.06	0.08	0.22	0.09	0.04	0.14	0.18	0.00
Development capital expenditures	67,563	74,749	39,667	63,747	54,839	44,694	19,156	21,695
Net property acquisitions	(4,977)	(101)	3,087	5,833	(136)	6,405	9,947	25,177
Corporate acquisitions	-	-	523,069	122,553	-	-	219,692	-
Total assets	1,495,778	1,496,308	1,439,857	823,679	641,671	593,930	550,497	255,626
Bank debt and working capital[2]	343,994	366,899	347,639	156,411	158,811	137,045	111,888	71,680
Common shares outstanding (000s)	127,900	127,098	127,091	89,056	72,191	72,168	72,162	41,828
Operational								
Average daily production								
Crude oil (bbls/d)	10,520	9,672	8,057	6,168	4,474	3,805	3,155	1,645
NGLs (bbls/d)	1,274	1,183	1,073	457	474	355	223	181
Natural gas (Mcf/d)	31,341	29,642	26,573	18,959	17,150	13,951	11,770	6,666
Total (boe/d)	17,018	15,795	13,559	9,785	7,806	6,485	5,339	2,937

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.

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

The following outlines the significant events over the past two years;

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 $359.0 million providing us a significant increase in our Cardium inventory and increasing our low risk drilling opportunities.

In the fourth quarter of 2012, the Company closed non-core property dispositions for $28.6 million and closed a property acquisition in west central Saskatchewan for $23.7 million.

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.

	Year ended December 31,	
($000s)	2012	2011
Cash flow from operating activities	173,535	79,008
Changes in non-cash working capital	14,737	6,702
Transaction costs	4,416	1,386
Settlement of decommissioning liabilities	1,197	67
Funds from operations	193,885	87,163

BOE PRESENTATION

Boe means barrel of oil equivalent. All Boe conversions in the report are derived by converting gas to oil at the ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Boe : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Boe : 6 Mcf, utilizing a conversion ratio of 1 Boe : 6 Mcf may be misleading as an indication of value.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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: Whitecap's future plans and focus; future oil and natural gas prices and Whitecap's commodity risk management programs; the amount of future decommissioning liabilities; future liquidity and financial capacity; future dividends and dividend policy; future results from operations and operating costs and metrics; future costs, expenses and royalty rates; Whitecap's ability to fund its current capital program and dividend payments for the remainder of the year, anticipated scheduling of Whitecap's review of its credit arrangements with its lenders, future taxes payable by Whitecap, Whitecap's tax pools and statements relating to the Invicta Transaction including Invicta's estimated net debt.

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.