PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
111 5 Avenue SW, Suite 3100
Calgary, Alberta
Canada T2P 5L3
Telephone +1 403 509 7500
Facsimile +1 403 781 1825
www.pwc.com/ca

Independent Auditor's Report

To the Shareholders
of Whitecap Resources Inc.

We have audited the accompanying financial statements of Whitecap Resources Inc., which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of operations, comprehensive loss and deficit, and cash flows for the periods then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Whitecap Resources Inc. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 22, 2011
Calgary, Alberta

WHITECAP RESOURCES INC.

BALANCE SHEET

As at December 31 ($000s)	2010	2009
Assets		
Current Assets		
Cash	**10**	5
Accounts receivable	**10,212**	1,886
Deposits and prepaid expenses	**727**	434
Risk management contracts	**-**	24
	10,949	2,349
Properties and equipment [Note 5]	**196,475**	56,049
Future income tax asset [Note 14]	**-**	662
	207,424	59,060
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**22,941**	2,060
Bank debt [Note 7]	**17,553**	10,580
Risk management contracts [Note 13]	**1,977**	-
	42,471	12,640
Convertible debentures [Note 8]	**-**	9,594
Asset retirement obligation [Note 9]	**4,180**	1,309
Future income tax liability [Note 14]	**11,719**	-
	58,370	23,543
Shareholders' Equity		
Share capital [Note 10]	**151,994**	36,104
Equity component of debentures [Note 8]	**-**	425
Contributed surplus [Note 10]	**8,036**	341
Deficit	**(10,976)**	(1,353)
	149,054	35,517
	207,424	59,060

See accompanying notes to financial statements

Approved on behalf of the Board:

Stephen C. Nikiforuk
Director

Grant B. Fagerheim
Director

WHITECAP RESOURCES INC.

STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the year ended December 31 ($000s, except per share amounts)	**2010**	2009
Revenue		
Petroleum and natural gas revenue	**25,991**	4,799
Royalties	**(3,891)**	(932)
Other income	**336**	19
	22,436	3,886
Realized gain on risk management contracts	**543**	-
Unrealized gain (loss) on risk management contracts [Note 13]	**(2,001)**	24
	20,978	3,910
Expenses		
Operating	**6,659**	1,199
Transportation	**866**	181
General and administrative [Note 10]	**7,697**	1,313
Interest and financing	**1,984**	599
Depletion, depreciation and accretion	**15,421**	2,263
	32,627	5,555
Net loss before income taxes	**(11,649)**	(1,645)
Taxes		
Future income tax recovery [Note 14]	**2,026**	421
Net loss and other comprehensive loss	**(9,623)**	(1,224)
Deficit, beginning of period	**(1,353)**	(129)
Deficit, end of period	**(10,976)**	(1,353)
Net loss per share [Note 11]		
Basic and diluted ($/share)	**(0.42)**	(0.26)

See accompanying notes to financial statements

WHITECAP RESOURCES INC.

STATEMENT OF CASH FLOWS

For the year ended December 31 ($000s)	**2010**	2009
Operating activities		
Net loss for the period	**(9,623)**	(1,224)
Items not affecting cash:		
Depletion, depreciation and accretion	**15,421**	2,263
Future income taxes	**(2,026)**	(421)
Stock-based compensation	**5,764**	341
Non-cash interest expense [Note 8]	**169**	61
Unrealized (gain) loss on risk management contracts [Note 13]	**2,001**	(24)
	11,706	997
Net change in non-cash working capital items	**(5,623)**	(394)
	6,083	602
Financing Activities		
Increase in bank debt	**6,973**	10,580
Related party repayment [Note 15]	**-**	(300)
Issuance of share capital, net of share issue costs	**84,207**	35,863
Issuance of convertible debentures, net of financing costs	**-**	9,958
Repayment of acquisition debt	**(16,975)**	-
	74,205	56,101
Investing activities		
Expenditures on property, plant and equipment	**(41,579)**	(429)
Expenditures on corporate and property acquisitions	**(52,572)**	(56,511)
Net change in non-cash working capital items	**13,868**	200
	(80,283)	(56,740)
Increase (decrease) in cash, during the period	**5**	(37)
Cash, beginning of period	**5**	42
Cash, end of period	**10**	5
Cash interest paid	**1,815**	538
Cash taxes paid	**-**	-

See accompanying notes to financial statements

1. NATURE OF BUSINESS

Whitecap Resources Inc. (also referred to herein as "Whitecap" or "the Company") is an oil and natural gas exploration, development and production company based in Calgary, Alberta, Canada. The Company's operations are in Alberta and Saskatchewan.

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

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

2. SUMMARY OF ACCOUNTING POLICIES

Basis of presentation

The financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated.

Measurement uncertainty

The amounts recorded for the fair value of financial instruments, stock-based compensation, depreciation, depletion and accretion, the provision for asset retirement obligations and the provision for future income taxes are based on estimates. In addition, the ceiling test calculation is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids ("NGLs") owned by Whitecap are recognized when title passes from Whitecap to its customers and collectability is reasonably assured.

Transportation

Costs paid by Whitecap for the transportation of natural gas, crude oil and NGLs from the wellhead to the point of title transfer are recognized when the transportation is provided.

Joint Interests

Whitecap conducts a significant portion of its oil and gas production activities through jointly controlled operations and the financial statements reflect only Whitecap's proportionate interest in such activities.

Depletion and Depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated on the unit-of-production basis based on:

(a) total estimated proved reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
(b) total capitalized costs, excluding unproved lands, plus estimated future development costs of proved undeveloped reserves, including future estimated asset retirement costs; and
(c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Property, Plant and Equipment ("PP&E")

Whitecap follows the full cost method of accounting. All costs of exploring, developing, enhancing and acquiring petroleum and natural gas properties, including asset retirement costs, are capitalized and accumulated in one cost centre as all operations are in Canada. Maintenance and repairs are charged against operations and renewals and enhancements that extend the economic life of the PP&E are capitalized. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion by 20 percent or more.

Impairment

Impairment is recognized if the carrying amount of the PP&E exceeds the sum of the undiscounted cash flows expected to result from Whitecap's proved reserves. Cash flows are calculated based on third party quoted forward prices, adjusted for Whitecap's contract prices and quality differentials.

Upon recognition of impairment, Whitecap would then measure the amount of impairment by comparing the carrying amounts of the PP&E to an amount equal to the estimated net present value of future cash flows from proved plus risked probable reserves. Whitecap's risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of Whitecap's future cash flows would be recorded as a permanent impairment and charged against operations.

The cost of unproved properties is excluded from the impairment test described above and subject to a separate impairment test. In the case of impairment, the book value of the impaired properties is moved to the petroleum and natural gas depletable base.

Asset Retirement Obligations

Whitecap recognizes an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, will be applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligation are charged against the ARO to the extent of the liability recorded.

Stock-based Compensation

Whitecap has a stock-based compensation plan and uses the fair-value method to record compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the vesting period outlined in the option agreement. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense.

Income Taxes

Whitecap follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of Whitecap and their respective tax base, using substantively enacted future income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs, provided that the income tax rates are substantively enacted. Temporary differences arising on acquisitions result in future income tax assets and liabilities.

Financial Instruments

Financial assets, financial liabilities and non-financial derivatives are measured at fair value on initial recognition.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity loans and receivables, or other financial liabilities.

(a) *Held-for-trading*
Financial assets and liabilities designated as held-for-trading are subsequently measured at fair value with changes in those fair values charged immediately to operations. Whitecap classifies all risk management contracts as held-for-trading. Cash and cash equivalents are also classified as held-for-trading.

(b) *Available-for-sale assets*
Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI"), net of tax. Amounts recognized in OCI for available-for-sale financial assets are charged to operations when the asset is derecognized or when there is an other than temporary asset impairment.

(c) *Held-to-maturity investments, loans and receivables and other financial liabilities*
Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Whitecap classifies accounts receivable as loans and receivables, and accounts payable, bank debt and convertible debentures as other financial liabilities.

Financing costs are shown as a reduction in the carrying value of long-term debt and are being expensed over the term of the debt using the effective interest method.

3. NEW ACCOUNTING POLICIES

Current Accounting Changes

- The CICA issued sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements, and section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary. These standards will be effective on January 1, 2011. The adoption of these sections does not impact the Company's financial statements at this time.

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. The adoption of this standard impacts the accounting treatment of business combinations entered into after January 1, 2011. The standard allows for Companies to use "Business Combinations", Section 1581 until the end of 2010. The Company has opted to use Section 1581.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). Whitecap will be required to report its results in compliance with IFRS beginning in 2011 and is in the process of implementation of IFRS accordingly.

4. FINANCIAL ASSETS AND CREDIT RISK

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

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

The majority of the credit exposure on accounts receivable at December 31, 2010 pertains to accrued revenue for December 2010 production volumes. Whitecap transacts with a number of oil and natural gas marketing companies and commodity end users ("commodity purchasers"). Commodity purchasers and marketing companies typically remit amounts to Whitecap by the 25th day of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2010, no one counterparty accounted for more than 25 percent of the total accounts receivable balance.

During the twelve months of 2010, Whitecap has not experienced any material credit loss in the collection of receivables.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Whitecap considers all amounts greater than 90 days to be past due. As at December 31, 2010, there was $0.6 million of receivables aged over 90 days. Subsequent to December 31, 2010, approximately $0.5 million has been collected and the remaining balance is not considered to be a credit risk. Maximum credit risk is calculated as the total recorded value of accounts receivable and risk management contracts at the balance sheet date.

5. ACQUISITIONS

(a) Spitfire Energy Ltd. (Reverse takeover)

On June 25, 2010, Whitecap shareholders received approximately 15.3 million shares of Spitfire. The total consideration has been valued based on a share price of $3.33 per Spitfire share outstanding plus net debt of approximately $8.6 million. For accounting purposes the transaction was accounted for as a reverse takeover with Whitecap deemed to be the acquirer and Spitfire deemed to be the acquiree. The acquisition will be recorded by the elimination of the share capital, contributed surplus and deficit of Spitfire.

Net assets acquired ($000s):	
Non-cash working capital deficiency	(8,571)
Petroleum and natural gas properties	34,355
Asset retirement obligations	(636)
Future income tax liability	(4,063)
	21,085
Consideration:	
Issuance of shares	20,002
Transaction costs	1,083
	21,085

(b) Onyx 2006 Inc. ("Onyx")

On July 30, 2010, Whitecap acquired all the issued and outstanding shares of Onyx for an aggregate purchase price of approximately $52 million which included $40.5 million payable in cash to the shareholders of Onyx and the assumption of approximately $11.0 million of total net liabilities.

Net assets acquired ($000s):	
Non-cash working capital deficiency	(10,958)
Petroleum and natural gas properties	63,440
Asset retirement obligations	(692)
Future income tax liability	(10,876)
	40,914

Consideration:	
Cash consideration paid	40,534
Transaction costs	380
	40,914

PROPERTY AND EQUIPMENT

($000s)	2010	2009
Petroleum and natural gas properties	213,673	58,134
Other assets	279	152
Less: accumulated depletion and depreciation	(17,477)	(2,237)
Total net book value	196,475	56,049

At December 31, 2010, approximately $13.5 million (2009 – $0.8 million) of unproved property and salvage value of $2.5 million (2009 – $1.0 million) was excluded from the depletion calculation. Future development costs of $69.8 million (2009 – $7.7 million) were included in the depletion calculation.

During the twelve months ended December 31, 2010, the Company capitalized $3.3 million (2009 - $0.1 million) of administrative costs directly relating to exploration and development activities which includes $2.2 million (2009 - $nil) of stock-based compensation.

The Company performed a ceiling test calculation at December 31, 2010. No impairment was recorded as a result of the calculation.

The forecasted future prices used in the ceiling test evaluation of the Company's reserves as at December 31, 2010 were as follows:

	WTI Oil (US$/bbl)	AECO-C (Cdn$/MMbtu)	Cdn$/US$ Exchange rates
2011	85.00	4.25	0.975
2012	87.70	4.90	0.975
2013	90.50	5.40	0.975
2014	93.40	5.90	0.975
2015	96.30	6.35	0.975
2016	99.40	6.75	0.975
2017	101.40	7.10	0.975
2018	103.40	7.40	0.975
2019	105.40	7.60	0.975
2020	107.60	7.75	0.975
2021	109.70	7.85	0.975
2022	111.90	8.05	0.975
2023	114.10	8.20	0.975
2024	116.40	8.40	0.975
2025	118.80	8.50	0.975
Remainder(1)	2.0%	2.0%	0.975

Note:
(1) The prices increase at an average inflation rate of 2 percent every year thereafter.

6. FINANCIAL LIABILITIES AND LIQUIDITY RISK

Liquidity risk is the risk that Whitecap will not be able to meet its financial obligations as they become due. Whitecap actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional common shares. Management believes that future cash flows generated from these sources will be adequate to settle Whitecap's financial liabilities.

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

($000s)	<1 year	2 to 3 years	Total
Accounts payable and accrued liabilities	22,941	-	22,941
Bank debt	17,553	-	17,553
Risk management contracts	1,977	-	1,977
Total financial liabilities	42,471	-	42,471

Whitecap actively maintains credit and working capital facilities to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Refer to Note 7 for further details on available amounts under existing banking arrangements, Note 12 for further details on capital management.

7. CREDIT FACILITIES

At December 31, 2010, the Company had a $65.0 million operating loan facility with a Canadian Financial Institution. Borrowings under the facility bear interest at the lender's prime rate plus 1.25 percent or, at the Company's option, guaranteed notes at the lender's base rate plus 2.75 percent. The loan is payable on demand and is secured by a $200 million debenture over the Company's real properties, a floating charge over all present and after acquired real property interests, and a security interest over all present and after acquired personal property. The Company must maintain a working capital ratio of not less than 1:1. The financial ratio is calculated as current assets plus undrawn amounts under the facility divided by current liabilities less amounts drawn under the facility. At December 31, 2010, Whitecap is in compliance with all covenants under the credit facility.

8. CONVERTIBLE DEBENTURES

On August 10, 2009, the Company issued $10 million principal amount of 8 percent secured convertible debentures. Interest is paid quarterly in arrears and the conversion price for the debentures is $2.88 per share. On December 7, 2010, the holders of the convertible debenture elected to convert the entire principal amount outstanding into approximately 3.5 million common shares. The outstanding debt and equity portion of the convertible debentures were transferred to share capital on conversion, while the remaining financing costs were expensed.

($000s)	Debt Portion	Financing Cost	Total Debt	Equity Portion	Principal Outstanding
Balance, December 31, 2008	9,575	(42)	9,533	425	10,000
Non-cash interest expense	56	5	61	-	-
Balance, December 31, 2009	9,631	(37)	9,594	425	10,000
Non-cash interest expense	132	37	169	-	-
Conversion into common	(9,763)		(9,763)	(425)	(10,000)
Balance, December 31, 2010	-	-	-	-	-

9. ASSET RETIREMENT OBLIGATION

($000s)	2010	2009
Asset retirement obligation, December 31,	1,309	-
Liabilities incurred	217	-
Liabilities acquired	1,720	1,279
Revision in estimates	753	-
Accretion expense	181	30
Asset retirement obligation, December 31,	4,180	1,309

The key assumptions, on which the carrying amount of the asset retirement obligation is based, include a credit adjusted risk-free rate of 8 percent and inflation rate of 2 percent. The total undiscounted amount of the estimated cash flows required to settle the obligations was $11.6 million (2009 – $6.1 million). The expected timing of payment of the cash flows required for settling the obligations ranges from 2 to 48 years.

10. SHARE CAPITAL

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

a) Authorized

Unlimited number of common shares without nominal or par value.

b) Issued and outstanding

	2010		2009	
(000s)	Shares	$	Shares	$
Balance, beginning of period	15,312	36,104	-	-
Issued for cash through private offering	21	50	15,312	36,764
Reverse takeover bid of Spitfire(1)	3,792	20,002	-	-
Issued for cash through private offering(1)	3,100	7,750	-	-
Stock option exercises	329	881	-	-
Contributed surplus adjustment on exercise of stock	-	235	-	-
Issued for cash through public prospectus offering(2)	15,800	80,415	-	-
Convertible debenture(3)	3,472	10,188	-	-
Share issue costs, net of future income tax	-	(3,631)	-	(660)
Balance, end of period	41,826	151,994	15,312	36,104

(1) Reverse takeover bid

On June 25, 2010, the Company completed the reverse takeover of Spitfire whereby each shareholder of Whitecap received 8.33 common shares of Spitfire in exchange for each Whitecap share totaling 15.3 million shares. As part of the reverse takeover, Spitfire also completed a $7.75 million non-brokered private placement (the "Private Placement") of 1.6 million units of Spitfire at a price of $2.50 per unit, with each unit comprised of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $2.50 for a period of five years and 1.5 million common shares at a price of $2.50 per common share. The private placement units and common shares are subject to an 18 month escrow, pursuant to which 25 percent of such security was released from escrow on July 12, 2010 and 25 percent released every six months thereafter. On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap Resources Inc. and changed its name to Whitecap Resources Inc.

(2) Share subscription

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

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

(3) Conversion of convertible debenture

On December 7, 2010, the holders of the convertible debenture elected to convert the entire principal amount outstanding into approximately 3.5 million common shares. Refer to note 8 for further details.

c) Stock options

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

(000s except per share amounts)	Number of Options	Weighted Average Exercise Price ($)
Balance, December 31, 2008	-	-
Granted	1,393	2.40
Balance, December 31, 2009	1,393	2.40
Granted	760	3.55
Acquired[1]	276	2.75
Exercised	(329)	2.68
Expired	(3)	5.58
Forfeited	(83)	2.40
Balance, December 31, 2010	2,014	2.82

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

Exercise Price ($)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price ($/share)	Number Exercisable	Weighted Average Exercise Price ($/share)
2.40 - 2.99	1,325	2.7	2.40	423	2.40
3.00 - 4.49	417	3.4	3.00	-	-
4.50 - 6.50	272	3.6	4.61	-	-
2.40 - 6.50	2,014	3.0	2.82	423	2.40

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

	2010	2009
Risk-free interest rate	2.15%	2.31%
Expected life (year)	4	4
Expected volatility	65%	65%
Expected dividend yield	-	-
Weighted average fair value ($/option)	$1.79	$1.22

Included in general and administrative expenses is non-cash stock-based compensation expense of $5.8 million (2009 – $0.3 million).

d) Warrants

On June 25, 2010, performance warrants were granted to certain employees in conjunction with the recapitalization transaction. A total of 1.6 million performance warrants were issued, entitling the holders thereof to purchase one common share at a price of $2.50 for a period of 5 years following the date of issuance. The performance warrants will vest and become exercisable as to one-third upon the 20 day weighted average trading price of the common shares (the "Trading Price") equaling or exceeding $4.00, an additional one-third upon the Trading Price equaling or exceeding $5.00 and a final one-third upon the Trading Price equaling or exceeding $6.00. The performance warrants are measured at their fair value on the date of grant and recognized as an expense over a two year vesting period. As at December 31, 2010, all performance warrants met the vesting requirements and the remaining unamortized non-cash compensation expense was recognized in the period.

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

(000s except per share amounts)	Number of Warrants	Weighted Average Exercise Price ($)
Balance, December 31, 2009	-	-
Granted	1,600	2.50
Acquired	130	11.50
Expired	(130)	(11.50)
Balance, December 31, 2010	1,600	2.50

Exercise Price ($)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price ($/share)	Number Exercisable	Weighted Average Exercise Price ($/share)
2.50	1,600	4.5	2.50	1,600	2.50

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

	2010
Risk-free interest rate	2.20%
Expected life (years)	5
Expected volatility	65%
Weighted average fair value ($/warrant)	$4.08

e) Contributed Surplus

($000s)	2010	2009
Balance, beginning of period	341	-
Stock-based compensation – Options	1,407	341
Stock-based compensation – Warrants	6,523	-
Option exercises	(235)	-
Balance, end of period	8,036	341

11. PER SHARE RESULTS

(000s except per share amounts)	2010	2009[1]
Per share income (loss), basic and diluted	(0.42)	(0.26)
Weighted average shares outstanding		
Basic	23,162	4,721
Diluted	23,389	4,721

Note:
[1] Prior period comparatives have been restated to reflect the 8.33 exchange ratio and 10 to 1 share consolidation.

12. CAPITAL MANAGEMENT

The Company’s policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders’ equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue new shares, seek debt financing and adjust its capital spending to manage current and projected debt levels.

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

($000s)	2010	2009
Current assets	10,949	2,349
Current liabilities, excluding bank debt	24,918	2,060
Working capital surplus (deficit)	(13,969)	289
Bank debt	17,553	10,580
Convertible Debentures – liability portion	-	9,594
Shareholders' equity	149,054	35,517

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Assets and Liabilities

Financial instruments of the Company consist mainly of cash, receivables, risk management contracts, payables and bank debt, all of which are included in these financial statements. At December 31, 2010, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

($000s)	Carrying	Fair Value
Receivables	10,212	10,212
Held for trading instruments (cash and risk management contracts)(1)	(1,967)	(1,967)
Other financial liabilities (accounts payable and bank debt)	(40,494)	(40,494)

Note:
(1) The fair value measurement of the risk management contracts has a fair value hierarchy of Level 2.

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

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

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

Market Risk Management

Commodity Price Risk

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

Whitecap manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts (see risk management contracts below). The following table illustrates the effects of movement in commodity prices on net income before tax due to changes in the fair value of risk management contracts in place at December 31, 2010, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable measure.

($000s impact on net income before tax)	10% increase	10% decrease
Crude oil price	(285)	285

At December 31, 2010 the following risk management contracts were outstanding with a mark to market liability value of $2.0 million:

Type	**Volume**	**Price**	**Index**	**Term**
Swap	500 bbls/d	C$86.85/bbl	C$WTI	Jan to Jun 2011
Swap	500 bbls/d	C$87.60/bbl	C$WTI	Jan to Dec 2011
Collar	300 bbls/d	C$75.00/bbl floor/ C$100.00/bbl	C$WTI	Jul to Dec 2011

Subsequent to December 31, 2010, the Company entered into the following risk management contracts:

Type	**Volume**	**Price**	**Index**	**Term**
Swap	1,000 GJ/d	$3.85/GJ	AECO	Feb to Dec 2011

At December 31, 2010, the following financial power contracts were outstanding:

Type	**Volume**	**Price**	**Term**
Swap	3,506 MWh	$49.60/MWh	Jan 2011 to Dec 2011
Swap	1,139 MWh	$46.06/MWh	Jan 2011 to Dec 2011

Interest Rate Risk

The Company is exposed to fluctuations in interest rates on its bank debt. Interest rate risk is mitigated through short-term fixed rate borrowings using guaranteed notes.

If interest rates applicable to floating rate debt at December 31, 2010 were to have increased by 25 basis points (0.25 percent) it is estimated that the Company's annual cash flows would decrease less than $0.1 million (2009 – nil). The Company does not expect interest rates to decrease.

Foreign Exchange Risk

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

14. INCOME TAXES

The Company's provision for income taxes differs from the result that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rate of 28 percent (2009 – 29 percent) to income before taxes. This difference results from the following:

($000s)	2010	2009
Computed expected provision for income taxes	(3,276)	(477)
Increase (decrease) resulting from		
Change in statutory rate and other	(376)	(11)
Valuation allowance (reversal)	5	(32)
Non-deductible stock-based compensation	1,621	99
Income tax recovery	(2,026)	(421)

The significant components of the future income tax liability and assets are as follows:

($000s)	2010	2009
Capital assets in excess of tax value	21,051	1,339
Risk management asset	(526)	6
Asset retirement obligation	(1,050)	(327)
Non-capital loss carry forward	(6,460)	(1,492)
Share issue costs	(1,296)	(188)
Future income tax liability (asset)	11,719	(662)

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

($000s)	2010	2009
Undepreciated capital cost	26,288	13,788
Canadian development expense	30,824	111
Canadian exploration expense	6,062	90
Canadian oil and gas property expense	49,510	36,766
Non-capital loss carry forward	25,687	5,570
Share issue costs	5,056	754
Total	143,427	57,079

At December 31, 2010, the Company has recognized the benefit of unused tax loss carry forwards of $25.7 million. Unused tax loss carry forwards of $0.1 million expire in 2028, $5.4 million expire in 2029 and $20.2 million expire in 2030.

COMMITMENTS

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

($000s)	2011	2012	2013	2014+	Total
Operating lease - office buildings	1,008	947	913	3,187	6,055

15. RELATED PARTY TRANSACTIONS

In the prior period, the Company received loans from certain officers of Whitecap for general working capital purposes. These amounts bear interest at 6 percent per annum and were repayable on demand. At December 31, 2009 the loans were fully repaid and no balances were outstanding. All amounts were recorded at the exchange amount.

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP (“BDP”) to provide Whitecap with legal services. Grant Zawalsky, a director of Whitecap, is a partner of this firm. During the year ended December 31, 2010, the Company incurred $0.4 million to BDP 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, 2010 a payable balance of $0.1 million was outstanding.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2010	2009
Accounts receivable	(5,798)	(1,909)
Prepaid and deposits	(22)	(326)
Accounts payable and accrued liabilities	14,065	2,041
Change in non-cash working capital	8,245	(194)
Relating to:		
Operating activities	(5,623)	(394)
Investing activities	13,868	200

17. SUBSEQUENT EVENTS

In December, the Company announced that it had entered into an agreement to purchase a partner's working interest in the Peace River Arch. The transaction closed on January 17, 2010 for a total consideration of $25.0 million.

On March 8, 2011 the Company announced that it had entered into an agreement with respect to a business combination with Spry Energy Ltd. ("Spry"). The arrangement provides for a total consideration of $223.0 million payable by Whitecap including the assumption of Spry's net debt of approximately $36.0 million. The transaction will be funded in part through a $136 million bought deal financing of subscription receipts in the capital of the Company at $6.80 per subscription receipt (the "Offering"). Spry shareholders will receive, for each Spry share held: i) 1.17647 Whitecap common shares; or $8.00 in cash, subject to an aggregate cash maximum of $130.9 million and a maximum distribution of 8.2 million Whitecap common shares. Whitecap has also granted to the underwriters an option to purchase up to an additional 2,000,000 subscription receipts, or common shares, at a price of $6.80 per subscription receipt or common share, as applicable, in whole or in part, on or within 30 days following closing of the Offering.

The Company syndicated its credit facility, which increased Whitecap's credit limit to $85 million from the previous limit of $65 million. The new facility consists of a $10 million operating line and a $75 million syndicated facility. The facility is a borrowing base facility subject to semi-annual review by the bank, with the next review schedule for the fall of 2011.