



**Year End Report**

For the year ended December 31, 2009

## MESSAGE TO SHAREHOLDERS

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Whitecap Resources Inc. is pleased to provide you with our 2009 year-end report.

2009 served Whitecap well with the start-up of our new oil and gas exploration company. We were able to acquire an exceptional oil based asset that is currently responding well to waterflood injection and where we have initiated implementing our expansion plans. The Valhalla North asset will provide a sound foundation from which we can increase shareholder value through organic growth. We project the existing asset can provide two to three times production growth from current levels.

In the fourth quarter of 2009 we focused our energies on recompletion and wellbore optimization activity with our results to date having provided exceptional capital efficiencies and we expect the same to continue in the future. We were also actively preparing for our first quarter 2010 capital program.

Our first quarter has been active as we will have completed the drilling of four wells including three horizontal wells and one vertical well all in the Valhalla North property. Our drilling to date has provided further confirmation of the upside we have identified in the pool. We are targeting a completion program for the wells that begin in the current quarter and will finish up after spring break-up.

We have also been actively pursuing other value growth opportunities. There is a significant amount of assets and business combination prospects in the market at this time and we believe that 2010 will be a year of sorting of assets and re-shuffling of companies and their focus. Although we have initialized Whitecap as a private company, we remain open to moving Whitecap to the public market if the opportunity to do so provides incremental value to our shareholders.

As we move forward through 2010 and into the future we look forward to reporting to you on our performance and results.

Thank you for your continued support!

On behalf of Management and our Board of Directors.

(signed) "Grant Fagerheim"

Grant Fagerheim  
March 23, 2010

## ACCOMPLISHMENTS / FINANCIAL UPDATE

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- Whitecap closed its previously announced acquisition of the Valhalla North properties for \$58 million in cash consideration, prior to normal closing adjustments. The property is 99 percent operated and includes facilities and pipeline infrastructure in addition to an ownership interest in a major gas processing plant. The acquisition closed in September 2009 therefore the financial results from the properties have been included in the financial statements from that date.
- In 2009, Whitecap issued 18 million common shares at \$2.00 per share for gross proceeds of \$36 million and issued a \$10 million convertible debenture to finance the property acquisition. The remaining purchase price was funded by the Company's \$25 million credit facility with a Canadian Financial Institution.
- In the fourth quarter of 2009, the Company focused its efforts on 7 recompletions and well optimizations which have been able to more than offset natural declines. Whitecap's current production based on field estimates is approximately 1,000 boe/d.
- Whitecap's total proved and total proved plus probable reserves at December 31, 2009 were 2,827 Mboe and 5,083 Mboe, respectively, based on internal evaluations. Over a short period of time and by spending minimal capital, the Company was able to effectively keep reserves flat from the April 1, 2009 reserve evaluation prepared by GLJ petroleum consultants.
- Whitecap's Board of Directors has approved a \$20 million capital program for 2010 that will deliver exceptional growth on cash flow, production and reserves per share. In total the Company expects to drill 20 gross (9 net) wells in the coming year. Whitecap plans to finance the 2010 capital program through a combination of cash flow and existing credit facilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

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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 23, 2010 and should be read in conjunction with the Company's audited financial statements and related notes for the period ended December 31, 2009.

The accompanying financial statements of Whitecap have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise.

The MD&A contains Non-GAAP measures and forward-looking information; 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 was incorporated under the laws of the Province of Alberta on June 3, 2008. The Company is an emerging oil and gas company engaged in the acquisition of, exploration for and development of crude oil and natural gas in Western Canada. Whitecap's main objective is value creation through the development of large oil and natural gas pools.

### 2009 YEAR END FINANCIAL AND OPERATIONAL RESULTS

#### Production

Production volumes averaged 822 boe/d in 2009 which reflects production from the Valhalla North acquisition for the period from September to December 2009. Although the Company did not commence operations until September 2009, the per boe per day calculation for reporting purposes is based on the 122 days in the period from September 17 to December 2009.

Whitecap's 2009 production volumes and commodity splits were as follows:

|                              | <b>2009</b>  |
|------------------------------|--------------|
| Crude Oil (bbls/d)           | <b>313</b>   |
| Natural gas (mcf/d)          | <b>2,558</b> |
| Natural gas liquids (bbls/d) | <b>83</b>    |
| Total (boe/d)                | <b>822</b>   |
| <b>Production Split (%)</b>  |              |
| Crude Oil                    | <b>38</b>    |
| Natural gas                  | <b>52</b>    |
| Natural gas liquids          | <b>10</b>    |
| Total                        | <b>100</b>   |

The Company's production for the fourth quarter averaged 806 boe/d which was negatively affected by the cold weather experienced in December. Current production is approximately 1,000 boe/d. In 2010, the Company expects to grow average production to approximately 1,200 boe/d and exit the year at approximately 1,600 boe/d using its existing asset base.

#### Revenue

Revenue for the period from September to December 2009 was \$4.8 million as a result of the Valhalla North acquisition. There were no revenues in 2008.

A breakdown of 2009 revenue is as follows:

| <b>\$</b>               | <b>2009</b>      |
|-------------------------|------------------|
| Crude Oil               | <b>2,828,123</b> |
| Natural gas             | <b>1,421,136</b> |
| Natural gas liquids     | <b>549,631</b>   |
| Total commodity revenue | <b>4,798,890</b> |
| Other revenue           | <b>19,338</b>    |
| Total                   | <b>4,818,228</b> |

Average Benchmark and realized prices for 2009 as follows:

|   | <b>2009</b>  |
|---|--------------|
| <b>Benchmark prices <sup>(1)</sup></b>        |              |
| WTI (US\$/bbl) <sup>(2)</sup>                 | <b>74.51</b> |
| Cdn\$ / US\$ foreign exchange rate            | <b>1.06</b>  |
| WTI (Cdn\$/bbl)                               | <b>79.18</b> |
| AECO natural gas (\$/mcf) <sup>(3)</sup>      | <b>4.14</b>  |
| <b>Average realized prices <sup>(1)</sup></b> |              |
| Crude Oil (\$/bbl)                            | <b>73.99</b> |
| Natural gas (\$/mcf)                          | <b>4.55</b>  |
| Natural gas liquids (\$/bbl)                  | <b>54.32</b> |
| Combined (\$/boe)                             | <b>47.82</b> |

<sup>(1)</sup> For the period from September to December 2009

<sup>(2)</sup> WTI represents posting prices of West Texas Intermediate oil

<sup>(3)</sup> Represents the AECO daily posting

Oil prices continue to recover in 2009 with US\$WTI averaging \$76.17 per bbl in the fourth quarter, and \$68.29 in the third quarter compared to \$51.46 per bbl for the first half of 2009. The Valhalla North properties have predominantly light crude oil resulting in a realized crude oil price of \$73.99 per bbl for 2009.

Natural gas prices were soft throughout 2009 with a strengthening in the fourth quarter. Alberta AECO Hub natural gas prices averaged \$4.13 per mcf in 2009 compared to \$8.13 per mcf throughout 2008. Whitecap typically realizes a premium to the AECO daily spot price as its natural gas production has high heat content, which receives a higher sales price.

### Risk Management and Hedging Activities

Whitecap maintains an ongoing risk management program to reduce the volatility of revenues in order to fund capital expenditures and protect acquisition economics as necessary.

The Company has not designated any of its risk management activities as accounting hedges under the Canadian Institute of Chartered Accountants (the "CICA") section 3855 and, accordingly, has marked-to-market its derivatives.

At December 31, 2009 the following risk management contracts were outstanding.

| Type | Volume   | Price     | Index | Term            |
|------|----------|-----------|-------|-----------------|
| Swap | 500 GJ/D | \$5.50/GJ | AECO  | Jan to Oct 2010 |

Subsequent to the year end the Company entered into the following risk management contracts.

| Type   | Volume     | Price                                      | Index  | Term            |
|--------|------------|--|--------|-----------------|
| Swap   | 500 GJ/D   | \$5.40/GJ                                  | AECO   | Feb to Oct 2010 |
| Swap   | 100 bbls/D | C\$86.50/bbl                               | C\$WTI | Jan to Jun 2010 |
| Swap   | 100 bbls/D | C\$86.00/bbl                               | C\$WTI | Jul to Dec 2010 |
| Collar | 100 bbls/D | C\$70.00/bbl floor /<br>C\$100/bbl ceiling | C\$WTI | Apr to Dec 2010 |

In aggregate, Whitecap has hedged approximately 32 percent of its base 2010 natural gas production at an average price of \$5.41/GJ and 54 percent of its base 2010 crude oil production at an average price of \$79.27/bbl based on the average swap and floor prices. This leaves ample room for upside price participation as well as the ability to layer on incremental hedges over time.

Whitecap's risk management strategy is to transact with creditworthy counterparties to provide downside protection and minimize the price cap on its product.

### Operating Netbacks

The components of 2009 operating netback are shown below:

|                     |                |
|---------------------|----------------|
| \$ per BOE          | <b>2009</b>    |
| Average sales price | <b>47.82</b>   |
| Other revenue       | <b>0.19</b>    |
| Total revenue       | <b>48.02</b>   |
| Royalties           | <b>(9.29)</b>  |
| Operating costs     | <b>(11.95)</b> |
| Transportation      | <b>(1.81)</b>  |
| Operating Netback   | <b>24.98</b>   |

On March 11, 2010, the Government of Alberta announced modifications to the royalty framework based on the findings of the Alberta Competitiveness Review. The following key recommendations for royalty adjustments will become effective on a permanent basis for the January 2011 production month.

- The current incentive program rate of five per cent on new natural gas and conventional oil wells will become a permanent feature of the royalty system, with the current time and volume limits.
- The maximum royalty rate for conventional oil will be reduced at higher price levels from 50 per cent to 40 per cent to provide better risk-reward balance to investors.

- Recognizing the fundamental changes to the North American supply/demand balance and increased competition from other jurisdictions, the maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50 to 36 per cent.
- All royalty curves will be finalized and announced by May 31, 2010.
- The transitional royalty framework for oil and gas introduced in November 2008 will continue until its original announced expiration on December 31, 2013. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. Wells that have already selected the transitional royalty rates will have the option to stay with those rates or switch to the new rates effective January 1, 2011.

We believe the adjustments are positive first steps and will continue to review more specific information around royalty curves and regulatory improvements as they become available.

The Company's 2009 operating cost of \$11.95 per boe includes approximately \$150,000 in well optimization initiatives. These initiatives have enabled Whitecap to offset natural declines and at the same time grow current production to approximately 1,000 boe/d.

#### General and administrative ("G&A")

Gross G&A costs in 2009 were \$1.2 million offset by \$0.2 million of overhead recoveries and capitalized G&A.

| \$                                      | 2009             | 2008 <sup>(1)</sup> |
|---|------------------|---------------------|
| General and administrative – gross      | 1,181,677        | 121,946             |
| Overhead recoveries                     | (117,452)        | -                   |
| Capitalized                             | (92,499)         | -                   |
| General and administrative – cash       | 971,726          | 121,946             |
| Stock based compensation – non cash     | 341,051          | -                   |
| <b>Total general and administrative</b> | <b>1,312,777</b> | <b>121,946</b>      |

<sup>(1)</sup> For the period from June 3, 2008 (date of incorporation) to December 31, 2008

#### Stock Based Compensation

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. The fair value of all options granted is estimated at the grant date using the Black-Scholes option pricing model.

In 2009, the Company granted 1.7 million stock options to employees, consultants and directors of the Company at \$2.00 per share. Stock based compensation expense of \$341,051 has been recognized with the offsetting amount recorded in contributed surplus.

#### Interest and Financing Expenses

| \$  | 2009           | 2008 <sup>(1)</sup> |
|---|----------------|---------------------|
| Interest and fees on bank debt and loans    | 224,690        | 4,356               |
| Interest on debentures                      | 313,425        | -                   |
| Non-cash interest expense                   | 60,614         | -                   |
| <b>Total interest and financing charges</b> | <b>598,729</b> | <b>4,356</b>        |

<sup>(1)</sup> For the period from June 3, 2008 (date of incorporation) to December 31, 2008

Total interest and financing charges includes non-cash interest expense related to the debenture offering. This is discussed further in the liquidity and capital resources section of the MD&A.

### Depletion, Depreciation, and Accretion

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.

A breakdown of the DD&A for 2009 as follows:

| \$                                 | 2009             |
|------------------------------------|------------------|
| Depletion and Depreciation expense | 2,233,572        |
| Accretion expense                  | 29,779           |
|                                    | <b>2,263,351</b> |

### Taxes

The Company has a future income tax recovery of \$421,166 for the year ended December 31, 2009. The future income tax recoveries in the reporting period reflect reduction to future tax rates, excesses of tax pools over accounting values, and tax pool adjustments from the prior year.

The following deductions are available for future income tax purposes:

| \$                                    | 2009              |
|---------------------------------------|-------------------|
| Undepreciated capital cost            | 13,788,065        |
| Canadian development expense          | 111,122           |
| Canadian exploration expense          | 89,851            |
| Canadian oil and gas property expense | 36,765,553        |
| Non-capital loss carry forward        | 5,570,391         |
| Share issue costs                     | 754,008           |
| Total                                 | <b>57,078,989</b> |

### Cash Flow and Net Loss

Cash flow from operating activities in 2009 was \$601,664 compared to a cash usage of \$189,968 in 2008 primarily due to revenue generated from the Valhalla North acquisition.

Net loss for the year ended December 31, 2009 was \$1.2 million (\$0.22 per share, basic and diluted) compared to a net loss of \$129,348 (\$1,293 per share, basic and diluted) for 2008.

### Related Party Transactions

During current and 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 are repayable on demand. Included in interest and financing charges for the year ended December 31, 2009 is \$20,827 paid to the officers (2008 - \$4,356). At December 31, 2009 the loans were fully repaid and no balances were outstanding.

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, 2009, the Company incurred \$198,902 to BDP for legal fees and disbursements. These amounts have been recorded at the exchange amount. The Company expects to continue using the services of this law firm from time to time.

### Capital Expenditures

In September 2009, the Company closed the acquisition of the Valhalla North assets in Alberta. The assets were acquired under the terms of an agreement whereby Whitecap and a private company jointly acquired the assets. Whitecap acquired a 50 percent working interest in the assets for cash consideration of approximately \$58 million prior to purchase price adjustments.

A breakdown of capital expenditures and property acquisitions is shown below:

| \$                         | 2009              | 2008 <sup>(1)</sup> |
|----------------------------|-------------------|---------------------|
| Land and lease             | 3,036             | -                   |
| Geological and geophysical | 89,851            | -                   |
| Drilling and completions   | 158,745           | -                   |
| Investment in facilities   | -                 | -                   |
| Capitalized administration | 92,499            | -                   |
|                            | <b>344,131</b>    | -                   |
| Office and other           | 84,455            | 67,619              |
| Property acquisition       | 56,510,614        | -                   |
| Capital Expenditures       | <b>56,939,200</b> | 67,619              |

<sup>(1)</sup> For the period from June 3, 2008 (date of incorporation) to December 31, 2008

In the fourth quarter of 2009, Whitecap participated in the drilling and completion of a non-operated well at 102/08-23-75-10W6M with a net working interest of 4.4 percent. The remaining expenditures were focused on detailed geological work and waterflood simulation of the Company's main Valhalla North Montney Sexsmith pool.

The Company's Board of Directors has approved a \$20 million capital program for 2010 (not including major acquisitions). These expenditures will be focused on:

- Significantly increasing recovery from the Valhalla North Montney Sexsmith Sand Oil pool. Currently 7.6 percent of the 75 MMbbls originally in place has been recovered. We forecast to expand this by:
  - a. Utilizing horizontal multi-frac technology (drill 5 to 6 gross horizontal wells in 2010).
  - b. Optimizing the well density
    - i. Drill 5 to 7 gross verticals wells in 2010.
    - ii. Application to increase the well density.
  - c. Expansion and acceleration of the waterflood.
  - d. Construction of a "working" reservoir simulation model to aid in the development planning for this pool.
- Quantify and access the reserves in other confirmed horizons within our land base:
  - a. Upper Montney gas and oil zones (approximately 2 wells to be drilled in 2010)
  - b. Charlie Lake (Coplin) oil (drill 2 to 3 horizontal wells in 2010).
  - c. Numerous uphole gas drilling and re-completion opportunities including the Bluesky and Doe Creek.
- Minor acquisitions & joint ventures associated with the above that are complementary to our existing land base.

### Ceiling Test

The Company performed a ceiling test calculation at December 31, 2009 in accordance with CICA full-cost accounting guidelines. No impairment was recorded as a result of the calculation. The forecasted future oil and gas prices used in the ceiling test evaluation of the Company's proved reserves at December 31, 2009 is included in the notes to the financial statements.

### **Asset Retirement Obligation**

At December 31, 2009, the Company recorded an Asset Retirement Obligation ("ARO") of \$1.3 million for future abandonment and reclamation of the Company's properties.

Included in the December 31, 2009 ARO balance was an increase of \$1.3 million relating to the property acquisition and \$29,779 for accretion expense in the period.

### **Capital Resources and Liquidity**

#### *Credit Facility*

On September 1, 2009, the Company obtained an Operating Loan Facility in the amount of \$25 million from a Canadian Financial Institution. The loan is payable on demand, bears interest at the lender's prime rate plus 1.25 percent and is secured by the Company's present and after-acquired property, assets and undertaking.

At December 31, 2009, Whitecap is in compliance with all covenants under the credit facility.

#### *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 debentures mature on September 30, 2012.

The debentures have been classified as long term debt, net of the fair value of the conversion feature at the date of issue, which has been classified as part of shareholders' equity. The value of the debt was calculated as the present value of the principal and interest payments with the remainder of the value attributed to the conversion feature and recorded as equity. The debt portion of the debenture is accreted up to its full face value by the end of the debenture term. The accretion is recorded as non-cash interest and financing charges on the statement of operations and deficit. The financing charges related to the debenture offering have been offset against the convertible debenture balance and are being amortized as interest and financing charges over the life of the debentures.

#### *Equity*

On September 9, 2009, the Company closed its private placement financing of 18 million common shares at a price of \$2.00 per common share, for total gross proceeds of \$36 million.

On November 18, 2009, the Company closed its non-brokered private placement financing of 382,000 common shares at a price of \$2.00 per common share, for total gross proceeds of \$764,000.

The Company is authorized to issue an unlimited number of common shares. As at March 23, 2010 there were 18,407,100 common shares outstanding.

#### *Liquidity*

At December 31, 2009, the Company has approximately \$14.4 million of unused credit available under its Operating Loan Facility.

The Company generally relies on operating cash flows and the bank loan to fund capital requirements and provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on cash flow generated from operations, existing credit facilities and the ability to access debt and equity markets.

### **Contractual Obligations**

Whitecap has contractual obligations in the normal course of business including 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.

### **Off Balance Sheet Arrangements**

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

## **Subsequent Events**

Subsequent to the year end, Whitecap acquired approximately 45 boe/d of production in the Valhalla area of Alberta for \$1.3 million prior to purchase price adjustments.

## **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 asset retirement obligations that are dependent upon estimates of future costs and timing of expenditures;
- estimated income and other tax liabilities requires 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.

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.

## **Financial Reporting Update**

### **Future Accounting Changes**

#### *Business Combinations*

The CICA issued Handbook Section 1582 "Business Combinations" that replaces the previous business combinations standard. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the guidance generally requires all transaction costs to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. This new Section also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently re-measured at each reporting period until settled. Currently, standards require only contingent liabilities that are payable to be recognized. The new guidance requires negative goodwill to be recognized in operations rather than the current standard of deducting from non-current assets in the purchase price allocation. This standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. Whitecap is currently assessing the impact of the standard.

#### *Consolidated Financial Statements and Non-controlling Interest*

The CICA issued Handbook 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. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in Consolidated Financial Statements subsequent to a business combination. These standards will be effective for Whitecap for business combinations occurring on or after January 1, 2011, with early application permitted. Whitecap is currently assessing the impact of the standard.

#### *International Financial Reporting Standards ("IFRS")*

In February 2008, the CICA's Accounting Standards Board of Canada ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Although the Company is not a publicly accountable enterprise, it is management's intent to adopt IFRS in-line with the AcSB's convergence time-line. Whitecap is assessing the potential impacts of this changeover and is developing its plan of adoption accordingly.

## 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 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 regulation. 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 may periodically use 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 very capital intensive. As a result, the Company relies on 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. Equity and debt capital are subject to market conditions and availability may increase or decrease from time to time. Funds from operations also fluctuate with changing commodity prices

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations with high standards in order to protect the environment 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.

## Selected annual information

| \$ thousands, except as noted                                  | 2009    | 2008    |
|--|---------|---------|
| Total revenue  | 4,818   | -       |
| Funds from operations  | 996     | (126)   |
| Funds from operations per share - basic and diluted (\$/share) | 0.18    | (1,260) |
| Net loss   | (1,223) | (129)   |
| Net loss per share - basic and diluted (\$/share)              | (0.22)  | (1,290) |
| Total assets   | 59,060  | 192     |
| Working capital surplus (deficit) <sup>(1)</sup>               | 289     | (194)   |
| Bank debt  | 10,580  | -       |

<sup>(1)</sup> Excludes bank debt

## Summary of quarterly results (“unaudited”)

| \$ thousands, except as noted                    | 2009   |        |         |         |         |       | 2008 |
|--|--------|--------|---------|---------|---------|-------|------|
|  | Q4     | Q3     | Q2      | Q1      | Q4      | Q3    | Q2   |
| <b>FINANCIALS</b>                                |        |        |         |         |         |       |      |
| Total revenue                                    | 3,749  | 1,069  | -       | -       | -       | -     | -    |
| Funds from (used in) operations                  | 1,258  | 4      | (176)   | (90)    | (109)   | (17)  | -    |
| Basic & Diluted (\$/share)                       | 0.07   | 0.00   | (1,760) | (900)   | (1,090) | (170) | -    |
| Net loss   | (512)  | (445)  | (160)   | (106)   | (112)   | (17)  | -    |
| Basic & Diluted (\$/share)                       | (0.03) | (0.10) | (1,600) | (1,060) | (1,120) | (170) | -    |
| Net capital expenditures                         | 371    | 56,552 | 5       | 11      | 17      | 51    | -    |
| Working capital (deficit) surplus <sup>(1)</sup> | 265    | 824    | (475)   | (313)   | (194)   | (68)  | -    |
| Bank Debt  | 10,580 | 12,790 | -       | -       | -       | -     | -    |
| Common shares outstanding (000's)                | 18,382 | 18,000 | (2)     | (2)     | -       | (2)   | (2)  |
| <b>OPERATIONS</b>                                |        |        |         |         |         |       |      |
| Average daily production                         |        |        |         |         |         |       |      |
| Crude oil (bbls/d)                               | 308    | 108    | -       | -       | -       | -     | -    |
| Natural gas liquids                              | 86     | 24     | -       | -       | -       | -     | -    |
| Natural gas (mcf/d)                              | 2,470  | 922    | -       | -       | -       | -     | -    |
| Total (boe/d)                                    | 806    | 285    | -       | -       | -       | -     | -    |

<sup>(1)</sup> Excludes bank debt

<sup>(2)</sup> 100 common shares were issued on incorporation.

For the period from incorporation to August 31, 2009, Whitecap did not have any petroleum and natural gas properties. In September 2009, the Company closed the acquisition of the Valhalla North assets located in Alberta. The assets were acquired under the terms of an agreement whereby Whitecap and a private company jointly acquired the assets. Whitecap acquired a 50 percent working interest in the assets for cash consideration of approximately \$58 million prior to purchase price adjustments.

## NON-GAAP MEASURES

This document contains the terms “funds from operations” and “operating netbacks”, which do not have a standardized meaning prescribed by Canadian 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 feels 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 is calculated as Cash flows from operating activities 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.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A may contain 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 may contain forward-looking information and statements pertaining to the following: projected average and exit production rates; the volumes and estimated value of Whitecap’s oil and gas reserves; the life of Whitecap’s reserves; the volume and product mix of Whitecap’s oil and gas production; future oil and natural gas prices and Whitecap’s commodity risk management programs; the amount of future asset retirement obligations; future liquidity and financial capacity; future results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures and future taxes payable by Whitecap; and Whitecap’s tax pools.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of Whitecap including, without limitation: that Whitecap will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Whitecap's reserve and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow to fund its planned expenditures; Whitecap believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

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

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

## **MANAGEMENT 'S REPORT**

Management has prepared the accompanying financial statements of Whitecap Resources Inc. in accordance with Canadian generally accepted accounting principles. Financial information presented throughout this report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Where appropriate, management has made informed judgments and estimates in accounting for transactions which affect the current accounting period but cannot be finalized with certainty until future periods. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

PricewaterhouseCoopers LLP was appointed by the Company's shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. This Committee, consisting of non-management directors, meets with management and independent auditors to ensure that each group is properly discharging its responsibilities and to discuss adequacy of internal controls, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board has approved the financial statements for issuance to the shareholders.

(signed) "Grant B. Fagerheim"

Grant B. Fagerheim  
President and Chief Executive Officer  
March 23, 2010

signed) "Thanh C. Kang"

Thanh C. Kang  
Vice President, Finance and Chief Financial Officer

## **AUDITOR'S REPORT**

**WHITECAP RESOURCES INC.**  
**BALANCE SHEETS**  
As at December 31

| \$  | 2009              | 2008      |
|---|-------------------|-----------|
| <b>Assets</b>                               |                   |           |
| <b>Current Assets</b>                       |                   |           |
| Cash  | 5,251             | 42,513    |
| Accounts receivable                         | 1,885,706         | 12,740    |
| Deposits and prepaid expenses               | 433,863           | 71,956    |
| Risk management contracts                   | 23,996            | -         |
|   | <b>2,348,816</b>  | 127,209   |
| <b>Properties and Equipment [Note 5]</b>    | <b>56,049,178</b> | 64,313    |
| <b>Future income tax asset [Note 12]</b>    | <b>661,652</b>    | -         |
|   | <b>59,059,646</b> | 191,522   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                   |           |
| <b>Current Liabilities</b>                  |                   |           |
| Bank debt [Note 7]                          | 10,580,000        | -         |
| Due to related parties [Note 16]            | -                 | 300,000   |
| Accounts payable and accrued liabilities    | 2,059,708         | 20,770    |
|   | <b>12,639,708</b> | 320,770   |
| <b>Convertible Debentures [Note 8]</b>      | <b>9,594,197</b>  | -         |
| <b>Asset retirement obligation [Note 9]</b> | <b>1,309,016</b>  | -         |
|   | <b>23,542,921</b> | 320,770   |
| <b>Shareholders' Equity</b>                 |                   |           |
| Share capital [Note 13]                     | 36,103,892        | 100       |
| Equity component of debentures [Note 8]     | 424,602           | -         |
| Contributed surplus [Note 13]               | 341,051           | -         |
| Deficit                                     | (1,352,820)       | (129,348) |
|   | <b>35,516,725</b> | (129,248) |
|   | <b>59,059,646</b> | 191,522   |

See accompanying notes to financial statements

Approved on behalf of the Board:

(signed) "Stephen C. Nikiforuk"

Stephen C. Nikiforuk  
Director

(signed) "Grant B. Fagerheim"

Grant B. Fagerheim  
Director

**WHITECAP RESOURCES INC.**  
**STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

| For the year ended December 31 <sup>(1)</sup>          | 2009               | 2008    |
|--|--------------------|---------|
| <b>Revenue</b>   |                    |         |
| Petroleum and natural gas revenue                      | 4,798,923          |         |
| Royalties  | (931,944)          |         |
| Other income   | 19,305             | 260     |
|  | 3,886,284          | 260     |
| Unrealized gain on risk management contracts [Note 11] | 23,996             | -       |
|  | 3,910,280          | 260     |
| <b>Expenses</b>  |                    |         |
| Operating  | 1,198,878          | -       |
| Transportation   | 181,183            | -       |
| General and administrative [Note 13]                   | 1,312,777          | 121,946 |
| Interest and financing                                 | 598,729            | 4,356   |
| Depletion, depreciation and accretion                  | 2,263,351          | 3,306   |
|  | 5,554,918          | 129,608 |
| <b>Net loss before income taxes</b>                    | <b>(1,644,638)</b> | 129,348 |
| <b>Taxes</b>   |                    |         |
| Future income tax recovery [Note 12]                   | 421,166            | -       |
| <b>Net loss and other comprehensive loss</b>           | <b>(1,223,472)</b> | 129,348 |
| <b>Deficit, beginning of period</b>                    | <b>(129,348)</b>   | -       |
| <b>Deficit, end of period</b>                          | <b>(1,352,820)</b> | 129,348 |
| <b>Net loss per share [Note 14]</b>                    |                    |         |
| Basic  | (0.22)             | (1,293) |
| Diluted  | (0.22)             | (1,293) |

<sup>(1)</sup> 2008 balances are for the period from June 3, 2008 (date of incorporation) to December 31, 2008.

See accompanying notes to financial statements

**WHITECAP RESOURCES INC.**  
**STATEMENT OF CASH FLOWS**

| For the year ended December 31 <sup>(1)</sup>              | 2009                | 2008             |
|--|---------------------|------------------|
| <b>Operating activities</b>                                |                     |                  |
| Net income (loss) for the period                           | (1,223,472)         | (129,348)        |
| Items not affecting cash:                                  |                     |                  |
| Depletion, depreciation and accretion                      | 2,263,351           | 3,306            |
| Future income taxes  | (421,166)           | -                |
| Stock based compensation                                   | 341,051             | -                |
| Non-cash interest expense [Note 8]                         | 60,614              | -                |
| Unrealized gain on risk management contracts [Note 11]     | (23,996)            | -                |
|  | <b>996,382</b>      | <b>(126,042)</b> |
| Net change in non-cash working capital items               | <b>(394,718)</b>    | <b>(63,926)</b>  |
|  | <b>601,664</b>      | <b>(189,968)</b> |
| <b>Financing Activities</b>                                |                     |                  |
| Increase in bank debt                                      | 10,580,000          | -                |
| Related party loans (Repayments) [Note 16]                 | (300,000)           | 300,000          |
| Issuance of share capital, net of share issue costs        | 35,863,306          | 100              |
| Issuance of convertible debentures, net of financing costs | 9,958,185           | -                |
|  | <b>56,101,491</b>   | <b>300,100</b>   |
| <b>Investing activities</b>                                |                     |                  |
| Capital acquisitions                                       | (56,510,614)        | -                |
| Property and equipment additions                           | (428,586)           | (67,619)         |
| Net change in non-cash working capital items               | 198,783             | -                |
|  | <b>(56,740,417)</b> | <b>(67,619)</b>  |
| <b>Increase (decrease) in cash, during the period</b>      | <b>(37,262)</b>     | <b>42,513</b>    |
| <b>Cash, beginning of period</b>                           | <b>42,513</b>       | <b>-</b>         |
| <b>Cash, end of period</b>                                 | <b>5,251</b>        | <b>42,513</b>    |
| <b>Cash interest paid</b>                                  | <b>538,115</b>      | <b>427</b>       |
| <b>Cash taxes paid</b>                                     | <b>-</b>            | <b>-</b>         |

<sup>(1)</sup> 2008 balances are for the period from June 3, 2008 (date of incorporation) to December 31, 2008.

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

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### 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.

### 2. SUMMARY OF ACCOUNTING POLICIES

The Financial Statements have been prepared by management following 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.

The amounts recorded for the fair value of financial instruments, stock based compensation, depreciation, depletion and accretion of assets, 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. Accounts receivable are recorded at the estimated net recoverable amount which involves estimates of uncollectable accounts. 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 per cent or more.

#### Impairment

Whitecap places a limit on the aggregate carrying value of PP&E, which may be amortized against revenues of future periods.

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.

### **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 Year Accounting Changes

Effective December 31, 2009, Whitecap adopted CICA issued amendments to Handbook Section 3862, Financial Instruments — Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3826 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to note 11 for enhanced fair value disclosures and note 6 for liquidity risk disclosures. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS.

#### Future Accounting Changes

The CICA issued section 1582 “Business Combinations” which establishes principles and requirements of the acquisition method for business combinations and related disclosures. The purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date of the acquisition, and most transaction costs are to be expensed as incurred. Section 1582 will be effective on January 1, 2011, with prospective application.

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 changes to these standards will impact the Company to the extent that future business combinations take place.

### **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, 2009 pertains to accrued revenue for December 2009 production volumes. Whitecap transacts with a number of oil and natural gas marketing companies and commodity end users (“commodity purchasers”). Commodity purchasers and marketing companies typically remit amounts to Whitecap by the 25<sup>th</sup> day of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2009, no one counterparty accounted for more than 25 per cent of the total accounts receivable balance.

During the twelve months of 2009, 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, 2009, there were no accounts receivable past due.

Maximum credit risk is calculated as the total recorded value of accounts receivable and risk management contracts at the balance sheet date.

## 5. PROPERTY AND EQUIPMENT

| \$   | 2009               | 2008    |
|--|--------------------|---------|
| Properties and equipment, at cost            | <b>58,286,056</b>  | 67,619  |
| Less: accumulated depletion and depreciation | <b>(2,236,878)</b> | (3,306) |
|  | <b>56,049,178</b>  | 64,313  |

On September 17, 2009, the Company closed the acquisition of the Valhalla North assets located in Alberta. The assets were acquired under the terms of an agreement whereby Whitecap and a private company jointly acquired the assets. Whitecap acquired a 50 percent working interest in the assets for cash consideration of approximately \$58 million prior to purchase price adjustments.

At December 31, 2009, oil and gas properties with a cost of \$756,424 relating to unproved properties have been excluded from the depletion and depreciation calculation. Future capital costs required to develop proved reserves in the amount of \$7.7 million are included in the depletion and depreciation calculation. The Company has capitalized \$92,499 of general and administrative costs in 2009.

The Company performed a ceiling test calculation at December 31, 2009. 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, 2009 were as follows:

|                          | WTI Oil<br>(US\$/bbl) | AECO-C<br>(Cdn\$/mmbtu) | Cdn\$/US\$<br>Exchange rates |
|--------------------------|-----------------------|-------------------------|------------------------------|
| 2010                     | 80.00                 | 5.96                    | 0.95                         |
| 2011                     | 83.00                 | 6.79                    | 0.95                         |
| 2012                     | 86.00                 | 6.89                    | 0.95                         |
| 2013                     | 89.00                 | 6.95                    | 0.95                         |
| 2014                     | 92.00                 | 7.05                    | 0.95                         |
| 2015                     | 93.84                 | 7.16                    | 0.95                         |
| 2016                     | 95.72                 | 7.42                    | 0.95                         |
| 2017                     | 97.64                 | 7.95                    | 0.95                         |
| 2018                     | 99.59                 | 8.52                    | 0.95                         |
| 2019                     | 101.58                | 8.69                    | 0.95                         |
| Remainder <sup>(1)</sup> | 2.0%                  | 2.0%                    | 0.95                         |

<sup>(1)</sup> 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, 2009:

| \$  | 1 year     | 2 to 3 years | Total      |
|---|------------|--------------|------------|
| Accounts payable and accrued liabilities  | 2,059,708  | -            | 2,059,708  |
| Bank debt                                 | 10,580,000 | -            | 10,580,000 |
| Convertible debentures including interest | 800,000    | 11,400,548   | 12,200,548 |
| Total financial liabilities               | 13,439,708 | 11,400,548   | 24,840,256 |

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 8 for further details on the convertible debentures and Note 10 for further details on capital management.

## 7. CREDIT FACILITIES

At December 31, 2009, the Company had a \$25.0 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 the Company's present and after-acquired property, assets and undertaking.

## 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 debentures mature on September 30, 2012. The debentures are convertible at the holder's option into common shares of Whitecap any time prior to September 30, 2012 at \$2.40 per common share.

| \$                         | Debt<br>Portion | Financing<br>Cost | Total<br>Debt | Equity<br>Portion | Principal<br>Outstanding |
|----------------------------|-----------------|-------------------|---------------|-------------------|--------------------------|
| August 10, 2009 Issuance   | 9,575,398       | (41,814)          | 9,533,583     | 424,602           | 10,000,000               |
| Non-cash interest expense  | 55,400          | 5,213             | 60,613        | -                 | -                        |
| Balance, December 31, 2009 | 9,630,798       | (36,601)          | 9,594,197     | 424,602           | 10,000,000               |

## 9. ASSET RETIREMENT OBLIGATION

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties.

| \$   | 2009      |
|--|-----------|
| Asset retirement obligation, beginning of period | -         |
| Liabilities acquired                             | 1,279,237 |
| Accretion expense                                | 29,779    |
| Asset retirement obligation, end of period       | 1,309,016 |

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 \$6.1 million. The expected timing of payment of the cash flows required for settling the obligations ranges from 2 to 48 years.

## 10. 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, convertible debentures 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:

| \$                                       | 2009       |
|--|------------|
| Current assets                           | 2,348,816  |
| Current liabilities, excluding bank debt | 2,059,708  |
| Working capital surplus                  | 289,108    |
| Bank debt                                | 10,580,000 |
| Convertible debentures                   | 9,594,197  |
| Shareholders' equity                     | 35,516,725 |

## 11. 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, bank debt and convertible debentures, all of which are included in these financial statements. At December 31, 2009, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

| \$  | Carrying Amount | Fair Value |
|---|-----------------|------------|
| Receivables and other financial assets                            | 1,885,706       | 1,885,706  |
| Held for trading instruments (cash and risk management contracts) | 29,247          | 29,247     |
| Convertible Debentures – liability portion                        | 9,594,197       | 9,594,197  |
| Other financial liabilities (accounts payable and bank debt)      | 12,639,708      | 12,639,708 |
| Total   | 24,145,858      | 24,148,858 |

### 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.

At December 31, 2009 the following risk management contracts were outstanding with a marked to market value of \$23,996.

| Type | Volume   | Price     | Index | Term            |
|------|----------|-----------|-------|-----------------|
| Swap | 500 GJ/D | \$5.50/GJ | AECO  | Jan to Oct 2010 |

Subsequent to the year end the Company entered into the following risk management contracts.

| Type   | Volume     | Price                                      | Index  | Term            |
|--------|------------|--|--------|-----------------|
| Swap   | 500 GJ/D   | \$5.40/GJ                                  | AECO   | Feb to Oct 2010 |
| Swap   | 100 bbls/D | C\$86.50/bbl                               | C\$WTI | Jan to Jun 2010 |
| Swap   | 100 bbls/D | C\$86.00/bbl                               | C\$WTI | Jul to Dec 2010 |
| Collar | 100 bbls/D | C\$70.00/bbl floor /<br>C\$100/bbl ceiling | C\$WTI | Apr to Dec 2010 |

#### 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, 2009 were to have increased by 25 basis points (0.25 percent) it is estimated that the Company's annual cash flows would decrease by approximately \$26,000. 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.

## 12. 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 29 percent to income before taxes. This difference results from the following:

| \$   | 2009      | 2008     |
|--|-----------|----------|
| Computed expected provision for income taxes | (476,945) | (37,511) |
| Increase (decrease) resulting from           |           |          |
| Change in statutory rate and other           | (10,789)  | 5,174    |
| Valuation allowance (Reversal)               | (32,337)  | 32,337   |
| Non-deductible stock based compensation      | 98,905    | -        |
| Income tax recovery                          | (421,166) | -        |

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

| \$                                    | 2009        | 2008     |
|---------------------------------------|-------------|----------|
| Capital assets in excess of tax value | 1,338,861   | -        |
| Risk management asset                 | 6,719       | -        |
| Asset retirement obligation           | (327,254)   | -        |
| Non-capital loss carry forward        | (1,491,733) | 32,337   |
| Valuation allowance                   | -           | (32,337) |
| Share issue costs                     | (188,245)   | -        |
| Future income tax liability (asset)   | (661,652)   | -        |

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

| \$                                    | 2009       | 2008    |
|---------------------------------------|------------|---------|
| Undepreciated capital cost            | 13,788,065 | -       |
| Canadian development expense          | 111,122    | -       |
| Canadian exploration expense          | 89,851     | -       |
| Canadian oil and gas property expense | 36,765,553 | -       |
| Non-capital loss carry forward        | 5,570,391  | 129,348 |
| Share issue costs                     | 754,008    | -       |
| Total                                 | 57,078,989 | 129,348 |

At December 31, 2009, the Company has recognized the benefit of unused tax loss carry forwards of \$5.6 million. Unused tax loss carry forwards of \$129,348 expire in 2028 and \$5.5 million expire in 2029.

### 13. SHARE CAPITAL

#### Authorized

Unlimited number of common shares without nominal or par value.

| Issued and outstanding           | 2009       |            | 2008   |     |
|----------------------------------|------------|------------|--------|-----|
|                                  | Shares     | \$         | Shares | \$  |
| Balance, beginning of period     | 100        | 100        |        |     |
| Issuance on incorporation        | -          | -          | 100    | 100 |
| Issuance from private placement  | 18,382,000 | 36,764,000 |        |     |
| Share issue costs                | -          | (900,694)  | -      | -   |
| Future income tax on share issue | -          | 240,486    | -      | -   |
| Balance, end of period           | 18,382,100 | 36,103,892 | 100    | 100 |

#### Common share offering

On September 9, 2009, the Company closed its private placement financing of 18 million common shares at a price of \$2.00 per common share, for total gross proceeds of \$36 million.

On November 15, 2009, the Company closed its non brokered private placement financing of 382,000 common shares at a price of \$2.00 per commons share, for total gross proceeds of \$764,000.

#### Stock options

Under the Stock Option Plan, the Board of Directors may grant to any director, officer, employee or consultant, options to acquire commons 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.

|                             | 2009              |                                      |
|-----------------------------|-------------------|--------------------------------------|
|                             | Number of Options | Weighted Average Exercise Price (\$) |
| Balance beginning of period | -                 | -                                    |
| Stock options granted       | 1,671,900         | 2.00                                 |
| Balance end of period       | 1,671,900         | 2.00                                 |

| Exercise Price | Number outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise price (\$/share) | Number Exercisable | Weighted Average Exercise price (\$/share) |
|----------------|--------------------|---|--|--------------------|--|
| \$2.00         | 1,671,900          | 4.0   | \$2.00                                     | -                  | -  |

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 as follows:

|                         |       |
|-------------------------|-------|
| Risk-free interest rate | 2.31% |
| Expected life (year)    | 4     |
| Expected volatility     | 65%   |
| Expected dividend yield | -     |

Included in general and administrative expenses is non-cash stock based compensation expense.

|                                |                |
|--------------------------------|----------------|
| <i>Contributed Surplus(\$)</i> | <b>2009</b>    |
| Balance, beginning of period   | -              |
| Stock based compensation       | <b>341,051</b> |
| Balance, end of period         | <b>341,051</b> |

#### 14. PER SHARE RESULTS

|                                     |                           |                     |
|-------------------------------------|---------------------------|---------------------|
|                                     | <b>2009<sup>(1)</sup></b> | 2008 <sup>(2)</sup> |
| Per share loss, basic and diluted   | <b>(0.22)</b>             | (1,293)             |
| Weighted average shares outstanding |                           |                     |
| Basic and diluted                   | <b>5,668,067</b>          | 100                 |

<sup>(1)</sup> Stock options are anti-dilutive as there was a net loss incurred in the year.

<sup>(2)</sup> For the period from June 3, 2008 (date of incorporation) to December 31, 2008.

#### 15. COMMITMENTS

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

|                                   |                |                |                |
|-----------------------------------|----------------|----------------|----------------|
| \$                                | 2010           | 2011           | 2012           |
| Operating lease – office building | 273,751        | 262,051        | 107,563        |
| Operating lease – vehicles        | 14,196         | 14,196         | 10,647         |
|                                   | <b>287,947</b> | <b>276,247</b> | <b>118,210</b> |

#### 16. RELATED PARTY TRANSACTIONS

During current and 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 are repayable on demand. Included in interest and financing charges for the year ended December 31, 2009 is \$20,827 paid to the officers (2008 - \$4,356). At December 31, 2009 the loans were fully repaid and no balances were outstanding. All amounts are 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, 2009, the Company incurred \$198,902 to BDP for legal fees and disbursements. These amounts have been recorded at the exchange amount. The Company expects to continue using the services of this law firm from time to time.

#### 17. SUPPLEMENTAL CASH FLOW INFORMATION

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

|  |                    |                     |
|--|--------------------|---------------------|
|  | <b>2009</b>        | 2008 <sup>(1)</sup> |
| Accounts receivable                      | <b>(1,909,243)</b> | (12,740)            |
| Prepaid and deposits                     | <b>(325,630)</b>   | (71,956)            |
| Accounts payable and accrued liabilities | <b>1,840,155</b>   | 20,770              |
| Change in non-cash working capital       | <b>(394,718)</b>   | (63,926)            |

<sup>(1)</sup> For the period from June 3, 2008 (date of incorporation) to December 31, 2008.

## **18. SUBSEQUENT EVENTS**

Subsequent to the year end, Whitecap acquired approximately 45 boe/d of production in the Valhalla area of Alberta for \$1.3 million prior to purchase price adjustments.

## CORPORATE INFORMATION

### DIRECTORS

Grant B. Fagerheim  
President & CEO, Whitecap Resources Inc.  
Chairman Whitecap Resources Inc.

Robert G. Welty <sup>(1)(2)</sup>  
Independent Businessman

Grant A. Zawalsky <sup>(1)(2)</sup>  
Partner, Burnet, Duckworth & Palmer LLP

Stephen C. Nikiforuk <sup>(1)(2)</sup>  
President, MyOwnCFO Inc.

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of the Compensation Committee

### OFFICERS

Grant B. Fagerheim  
President & CEO

Dan Christiansen  
Vice President, Exploration

Darin Dunlop  
Vice President, Engineering

Gary Lebsack  
Vice President, Land

Thanh Kang  
Vice President Finance & CFO

David Mombourquette  
Vice President, Business Development

David Salahub  
Vice President, Production  
& Operations

### AUDITORS

PricewaterhouseCoopers LLP  
Calgary, Alberta

### LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

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### HEAD OFFICE

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### ABBREVIATIONS

|        |                                   |       |                             |
|--------|-----------------------------------|-------|-----------------------------|
| bbls   | barrels                           | mcf   | thousand cubic feet         |
| bbls/d | barrels per day                   | mcf/d | thousand cubic feet per day |
| boe    | barrels of oil equivalent         | mmcf  | million cubic feet          |
| boe/d  | barrels of oil equivalent per day | mstb  | 1000 stock tank barrels     |
| bp/d   | barrels per day                   | NGL's | natural gas liquids         |
| bop/d  | barrels of oil per day            | WTI   | West Texas Intermediate     |
| Mbbl   | thousand barrels                  | GJ    | gigajoule                   |
| AECO   | Alberta Energy Company            |       |                             |

\*Natural gas is equated to oil on the basis of 6 Mcf of natural gas =1 barrel of oil equivalent (boe)