

MANAGEMENT DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Whitecap Resources Inc. (the "Company" or "Whitecap") is dated March 22, 2011 and should be read in conjunction with the Company's audited financial statements and related notes for the period ended December 31, 2010.

The accompanying financial statements of Whitecap have been prepared by management and approved by the Company's 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 is an oil-weighted 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; and (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.

2010 YEAR END FINANCIAL AND OPERATIONAL RESULTS

Production

Whitecap's 2010 production volumes and commodity splits were as follows:

	2010	2009
Crude Oil (bbls/d)	631	105
Natural gas (Mcf/d)	4,141	855
NGLs (bbls/d)	112	28
Total (boe/d)	1,433	275
Production Split (%)		
Crude Oil and NGL	52	48
Natural gas	48	52
Total	100	100

Whitecap commenced operations in September 2009 which resulted in average production volumes of 275 boe/d in 2009 compared to 1,433 boe/d in 2010. The fourth quarter 2010 production volumes increased 150 percent from 2,014 boe/d compared to 806 boe/d in the prior period. The significant increase in production is a result of strategic corporate and asset acquisitions throughout the year and the Company's effective re-investment in those assets.

Revenue

A breakdown of 2010 revenue is as follows:

(\$000s)	2010	2009
Crude Oil	17,254	2,828
Natural gas	6,412	1,421
NGLs	2,325	550
Total commodity revenue	25,991	4,799
Other revenue	336	19
Total	26,327	4,818

Total revenue increased 5 times to \$26.3 million in 2010 from \$4.8 million in 2009. Fourth quarter 2010 total revenue was \$9.7 million compared to \$3.7 million for the same period in the prior year. Higher revenues in 2010 were a result of several factors including the Company producing for a full year in 2010 versus a partial year in 2009, the addition of strategic corporate and property acquisitions, growth from a successful drilling program and stronger oil prices in 2010.

Average benchmark and realized prices for 2010 are as follows:

	2010	2009
Benchmark prices		
WTI (US\$/bbl) ⁽¹⁾	79.45	61.80
US\$ / C\$ foreign exchange rate	0.98	0.88
WTI (C\$/bbl)	81.22	70.54
AECO natural gas (\$/Mcf) ⁽²⁾	4.00	3.95
Average realized prices ⁽³⁾		
Crude Oil (\$/bbl)	74.89	73.99
Natural gas (\$/Mcf)	4.24	4.55
NGLs (\$/bbl)	56.95	54.32
Combined (\$/boe)	49.68	47.82

Notes:

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

(2) Represents the AECO daily posting.

(3) Prior to hedging gains and losses.

Oil prices continued to recover in 2010 with US\$WTI averaging \$79.45/bbl compared to \$61.80/bbl in the prior year, partially offset by a stronger Canadian dollar. Natural gas prices however, have remained low due to the oversupply of natural gas in the market.

Oil and natural gas products are sold on the spot market and realized prices fluctuate with changes in the benchmark pricing of the underlying commodities. Average realized prices in the comparative period are higher than the comparative benchmark averages due to the Company starting production in the latter part of 2009 where commodity prices were higher than the yearly average.

The Company's crude oil and liquids are at a discount to Edmonton Par due to the differential embedded in the quality of the product produced from each of its three core areas. The crude oil quality is 36° API at Valhalla North in the Peace River Arch area of northwest Alberta, 40° API at Pembina in west central Alberta and 22° API at Fosterton in southwest Saskatchewan. The Company's natural gas commands a modest premium to the Alberta natural gas spot benchmark price due to its higher heat content.

Risk Management and Hedging Activities

Whitecap maintains an ongoing risk management program to reduce the volatility of revenues in order to fund capital expenditures and protect 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 section 3855.

The Company realized a gain of \$0.5 million on its risk management contracts. The unrealized loss is a result of the non-cash change in the mark-to-market values period over period.

Risk Management Contracts (\$000s)

Realized gain on risk management contracts	543
Unrealized loss on risk management contracts	(2,001)
Total loss on risk management contracts	(1,458)

At December 31, 2010, the following risk management contracts were outstanding:

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	Sept 2010 to Dec 2011
Swap	1,139 MWh	\$46.06/MWh	Jan 2011 to Dec 2011

In aggregate, the Company has hedged approximately 26 percent of its forecasted 2011 production. This leaves ample room for upside price participation as well as the ability to layer on incremental risk management contracts 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 2010 operating netback are shown below:

Netback (\$/boe)	2010	2009
Total commodity revenue	49.68	47.82
Other income	0.64	0.19
Royalties	(7.44)	(9.29)
Operating expenses	(12.73)	(11.95)
Transportation expenses	(1.65)	(1.81)
Operating Netback prior to hedging	28.50	24.96
Realized hedging gain	1.04	-
Operating Netback	29.54	24.96

For the twelve months ended December 31, 2010, royalties as a percentage of revenue were 15 percent compared to 19 percent in the prior period and 12 percent in the fourth quarter of 2010 compared to 25 percent in the fourth quarter of 2009. The decrease in royalty rates was a result of new production from the Company's horizontal wells which qualify for the five percent royalty holiday.

For the twelve months ended December 31, 2010, operating costs have increased to \$12.73 per boe compared to \$11.95 per boe in the prior period. The increase was mainly due to asset acquisitions in 2010 that had higher operating costs per boe compared to our existing Valhalla North property. In the fourth quarter of 2010, operating costs were \$17.64 per boe compared to \$11.89 per boe in the prior period. The higher than expected operating costs in the fourth quarter of 2010 was due to 13th month adjustments on gas processing and gathering fees in our Valhalla non-operated facility.

General and administrative ("G&A")

(\$000s)	2010	2009
General and administrative – gross	4,392	1,182
Overhead recoveries	(1,343)	(117)
Capitalized	(1,116)	(93)
General and administrative – cash	1,933	972
Stock-based compensation	7,930	341
Capitalized stock-based compensation	(2,166)	-
Total general and administrative	7,697	1,313

Gross G&A costs in 2010 were \$4.4 million offset by \$2.5 million of overhead recoveries and capitalized G&A. Increase in G&A costs are due to the Company moving from a startup phase in the prior period to fully operating in 2010. Included in G&A expenses for 2010 were fees associated with listing on the Toronto Stock Exchange and one-time charges relating to the corporate acquisitions.

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 and warrants granted have a term of five years to expiry. The fair value of all options granted is estimated at the grant date using the Black-Scholes option pricing model.

As at December 31, 2010, the Company had 2.0 million stock options and 1.6 million performance warrants outstanding. The options and warrants were issued at an average exercise price of \$2.82 per option and \$2.50 per warrant. Stock-based compensation expense of \$1.4 million related to options has been recognized with the offsetting amount recorded in contributed surplus.

The performance warrants become exercisable as to one-third upon the 20 day weighted average trading price of the common shares' market price equaling or exceeding \$4.00, an additional one-third upon the market price equaling or exceeding \$5.00 and final one-third upon the market price equaling or exceeding \$6.00. All performance warrants met their vesting requirements in 2010 and \$6.5 million in compensation expense was recorded in the period.

Interest and Financing Expenses

(\$000s)	2010	2009
Interest and fees on bank debt and loans	1,068	225
Interest on debentures	747	313
Non-cash interest expense	169	61
Total interest and financing charges	1,984	599

Interest expense has increased compared to the prior period as a result of a full year of capital spending in addition to corporate and property acquisitions in 2010, which increased bank debt. Cash interest and financing charges decreased 65 percent from \$5.36 per boe in 2009 compared to \$3.47 per boe in 2010 primarily due to higher production volumes. Total interest and financing charges include 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

(\$000s)	2010	2009
Depletion and Depreciation expense	15,240	2,233
Accretion expense	181	30
	15,421	2,263
Per BOE	29.48	22.55

The DD&A rate will fluctuate from one period to the next depending on the amount and type of capital spending and the amount of reserves added. The depletion rate is calculated on proven reserves, however proven plus probable reserves are added from acquisitions and development expenditures.

Ceiling Test

The Company performed a ceiling test calculation at December 31, 2010 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, 2010 is included in the notes to the financial statements.

Taxes

The Company has a future income tax recovery of \$2.0 million for the year ended December 31, 2010. 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:

(\$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

Cash Flow and Net Loss

Cash flow from operating activities for the year ended December 31, 2010 was \$6.1 million compared to prior period of \$0.6 million as a result of the Company advancing from a startup phase to a producing phase with the related revenue generation from its properties.

Net loss for the year ended December 31, 2010 was \$9.6 million (\$0.42 per share, basic and diluted) compared to a net loss of \$1.2 million (\$0.26 per share, basic and diluted) for the prior period. Increase in the net loss is primarily related to higher non-cash DD&A and stock-based compensation expense.

Related Party Transactions

In the prior year 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.

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.

Capital Expenditures

(\$000s)	2010	2009
Land and lease	916	3
Geological and geophysical	448	90
Drilling and completions	34,139	158
Investment in facilities	6,650	-
Capitalized administration	1,116	93
Drilling credits	(1,816)	
Development capital	41,453	344
Office and other	126	85
Expenditures on corporate and property acquisitions (cash-based)	52,572	56,511
Total capital expenditures	94,151	56,940

For the year ended December 31, 2010, capital expenditures, excluding acquisitions and after deducting Alberta Drilling Royalty Credits (“Drilling credits”), totaled \$41.5 million, with approximately 98 percent spent on drilling, completions and facilities.

Peace River Arch

Activity in 2010 focused on the Valhalla Montney Sexsmith light oil pool with 8 (3.9 net) of the total 17 (10.6 net) wells drilled in 2010 being within the Montney Sexsmith pool. Five of the wells drilled were horizontal multi-fracture wells and were the first horizontal wells drilled in the pool. Initial rates for these wells averaged more than 250 boe/d and stabilized within 3 months at an average of approximately 150 boe/d. These results combined with the cost savings being realized from program experience have resulted in a project rate of return (“ROI”) of approximately 57 percent. Performance has exceeded expectations with production growing 76 percent from 850 to 1,500 boe/d in 2010.

Subsequent to December 31, 2010, the Company was successful in consolidating its interest across the pool by acquiring one of its partner’s interest. The consistent and equal ownership across the entire pool paves the way for full development of the pool including the waterflood.

West Central Alberta

Whitecap entered the early stage Cardium resource play early in the third quarter through the acquisition of Onyx 2006 Inc. (“Onyx”). Since then, the Company has drilled and placed on production, 4 (3.6 net) horizontal multi-fracture Cardium light oil wells; two in the Pembina area and two in the Willesden Green area. Initial rates for these four wells averaged approximately 200 boe/d per well. Operating netbacks in the area have been greater than \$65/bbl due in part to the five percent royalty holiday period. In addition to our initial entry into the Cardium area, the Company has added five smaller property acquisitions around our core area.

SW Saskatchewan

The primary asset in southwest Saskatchewan is in the Fosterton Roseray formation. The two infill Fosterton Roseray oil wells that were drilled in the second quarter, were completed and placed on production with production averaging 30 boe/d per well with all-in costs of approximately \$0.7 million per well, which makes for excellent economics. Wells in the Fosterton Roseray oil pool are very predictable and provide the opportunity for low risk, low decline production additions at very attractive economic returns.

Asset Retirement Obligation

At December 31, 2010, the Company recorded an Asset Retirement Obligation (“ARO”) of \$4.2 million for future abandonment and reclamation of the Company’s properties. Included in the ARO balance are \$0.2 million related to liabilities incurred, \$1.7 million related to liabilities acquired from corporate and property acquisitions, accretion of \$0.2 million and revisions to estimates of \$0.8 million. Estimates are based on both operational knowledge of the properties and industry guidance provided by the ERCB. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined.

Capital Resources and Liquidity

Credit Facility

At December 31, 2010, the Company had a \$65 million operating credit 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.

Subsequent to the year end, 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 scheduled for the fall of 2011.

At December 31, 2010, Whitecap is in compliance with all covenants under its credit facility.

Convertible Debentures

The debentures were classified as long-term debt, net of the fair value of the conversion feature at the date of issue, which was 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 was accreted up to its full face value by the end of the debenture term. The accretion was recorded as non-cash interest and financing charges on the statement of operations and deficit. The financing charges related to the debenture offering were offset against the convertible debenture balance and were amortized as interest and financing charges over the life of the debentures.

The Company had a \$10 million principal amount of 8 percent secured convertible debentures. Interest was paid quarterly in arrears. 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.

Equity

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 15.4 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.

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 7, 2010, the holders of the convertible debenture elected to convert the entire principal amount outstanding into approximately 3.5 million common shares.

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.

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2010 there were 41.8 million common shares outstanding.

Liquidity

The Company generally relies on operating cash flows, equity issuances 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. Bank debt is classified as a current liability as it is a demand loan, however the Company does not believe that the loan will be required to be repaid in the near-term. The Company is currently in a net loss position, however it generates positive operating cash flow and the net loss position is primarily due to non-cash items. Additionally, the Company has \$47.5 million of unutilized bank debt to cover any working capital deficiencies. The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through available credit facilities combined with anticipated cash flow from operations. Present sources of capital are currently sufficient to satisfy the capital program for the upcoming 2011 fiscal year.

Contractual Obligations

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

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

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

In December 2010, the Company announced that it had entered into an agreement to purchase a partner's working interest in the Valhalla North property. The transaction closed on January 14, 2011 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. The acquisition is expected to close on or before May 11, 2011. 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 scheduled for the fall of 2011.

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 requiring interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time;
- estimated stock-based compensation expense using the Black-Scholes option pricing model.

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.

International Financial Reporting Standards (IFRS)

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian generally accepted accounting principles (GAAP) with IFRS for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required for accounting periods commencing on or after January 1, 2011, for publicly accountable profit-orientated enterprises.

First-time adoption of IFRS

The financial statements for the year ended December 31, 2011, will be prepared according to IFRS with comparative amounts for the year ended December 31, 2010. IFRS 1, First-time Adoption of International

Financial Reporting Standards, generally requires that the Company apply IFRS on a retrospective basis in its opening balance sheet as at January 1, 2010. IFRS 1 also provides certain mandatory exceptions and elective exemptions to retrospective application. The Company has completed its analysis and is in the process of finalizing its IFRS adjustments and exemptions as of December 31, 2010.

Significant accounting differences between the Company's current accounting policies under Canadian GAAP and expected accounting policies under IFRS include the following areas:

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

The Company, like many other Canadian oil and gas reporting issuers, applies the "full-cost" accounting methodology to its oil and gas assets. Under full-cost, capital expenditures are maintained in a single cost center for each country, and the cost center is subject to a single depletion calculation and impairment test. However, IFRS requires a more extensive evaluation of the Company's oil and gas assets.

Capital expenditures have to be segregated between exploration and evaluation ("E&E") and development and production ("D&P") assets. In addition, assets have to be aggregated at a component level. On transition, this requires establishing the book value of the unproved lands and then allocating the remaining carrying value to the D&P assets, based on reserve allocations for each component.

The Company's unproved land balance as at December 31, 2009 will be the opening balance of E&E at January 1, 2010. This and any other exploratory assets will be separately disclosed on the balance sheet and in the notes to the financial statements. E&E assets will be assessed for impairment on January 1, 2010, and thereafter, when amounts are transferred to property, plant and equipment assets and when indicators exist. For impairment testing, E&E assets are expected to be combined with PP&E; the excess of carrying amount over recoverable amount is expensed in the period of impairment.

The Company's net book value of PP&E excluding E&E as at December 31, 2009 will be the opening cost of PP&E at January 1, 2010. This amount was allocated, based on reserve value, to depletable units which consolidate into Cash Generating Units ("CGUs").

The Company has determined an appropriate depletion method by depleting at the depletable unit level. In addition, there is the option to deplete using a reserve base of proved reserves or both proved plus probable reserves. Whitecap is currently assessing the most appropriate depletion methodology it will use.

Impairment tests will occur if there is any indication that an asset may be impaired and the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company will determine the recoverable amount of the CGU to which the asset belongs. The Company has finalized its CGUs for this purpose. An impairment test will be performed individually for all CGUs when indicators suggest there may be impairment. There will be more CGUs than the single full-cost pool. The recognition of impairment in a prior year can be reversed should the conditions that caused the impairment improve.

Decommissioning costs

Provisions, contingent liabilities and assets, including asset retirement obligations ("ARO") are identified and calculated differently under IFRS. ARO calculations are expected to be impacted due to differences in the election of the discount rates to be used to present value the liability. In addition, under IFRS, ARO is required to be revalued each reporting period at the then prevailing interest rate. This may increase or decrease the ARO recorded on the balance sheet depending on the movement of interest rates. In addition, onerous contracts will require identification and, to the extent they exist, must be recorded as a liability on the balance sheet.

Share-based compensation

Share-based payments are expensed, based on a graded vesting schedule. Also, the Company will be required to incorporate a forfeiture multiplier rather than account for forfeitures as they occur under

Canadian GAAP. The Company's current accounting policy is aligned with the IFRS standard and does not expect any differences.

Provisions

Under IFRS, a provision is recorded if there is a present (legal or constructive) obligation as a result of a past event. A constructive obligation arises when an entity creates a valid expectation to other parties that it will discharge certain responsibilities based on an established pattern of past practice or published policies. IFRS provides a more precise definition and specific examples of a constructive obligation; a provision may be recognized at a different point in time depending on past practice of determining when an equitable or contractual obligation exists under Canadian GAAP.

Under Canadian GAAP, a contingent liability is recognized when it is likely that a future event will confirm a liability has been incurred and the amount of the loss can be reasonably estimated. Under IFRS, a provision is recognized when there is a present obligation, it is more likely than not an outflow of resources will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. This could potentially lead to situations where a provision may be recognized under IFRS, but was not previously recognized under Canadian GAAP. When measuring provisions, Canadian GAAP allows issuers to accrue provisions at the low end of the range of estimates when no outcome is more likely than other others. Under IFRS, the mid-point of the range is used to measure the provision when each outcome in a range is as likely as any other. This could potentially lead to provisions being accrued at higher amounts.

IFRS 1 Exemptions

First-Time Adoption of IFRS (IFRS 1) provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company plans to take advantage of optional exemptions in two main areas:

- Value the opening cost of E&E and PP&E assets at the net book value determined under Canadian GAAP on January 1, 2010, rather than applying IFRS rules retrospectively. PP&E assets accumulated in the cost centers shall be allocated to depletable units using reserve volumes or reserve values.
- Value past business combinations at the amounts determined under Canadian GAAP, rather than applying IFRS rules retrospectively. Note that on January 1, 2010, the Company continued to use the Canadian Handbook Section 1581, which is not aligned with IFRS 3, therefore differences in this area will arise in the 2010 comparatives.

The above is not intended to be a complete and comprehensive disclosure of all the possible significant accounting differences between the Company's current Canadian GAAP accounting policies and those expected under IFRS. The Company has analyzed the accounting policy choices available under IFRS and selected the ones best suited for its operations. At this time the Company is in the final stages of internal approval and discussing the choices with its external auditors. The Company will disclose additional information as the impacts, effects and policy choices are finalized. Any amendments to existing IFRS standards or implementation of new IFRS standards could lead to additional changes.

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 regulations. Such estimates may vary from actual results.

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

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

Environmental Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to understand the sensitivities of the environments in which it operates and its responsibilities from the beginning to the end. It also strives to identify the potential environmental impacts of its new projects, in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment 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.

Climate Change

World leaders gathered in Copenhagen in December 2009 to discuss climate policy. Even though consensus was not achieved, the message from the Copenhagen Accord was clear: greenhouse gases (“GHG”) and other air pollutants must be regulated in order to deal effectively with climate change. GHG emissions can be measured as carbon dioxide equivalents (“CO₂E”) and would consist of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

The Federal Government of Canada has announced its intention to regulate GHG and other air pollutants. As these regulations are under development, the Company is unable to predict the total impact of the potential regulations upon its business.

The Alberta Government has set targets for GHG emission reductions. Alberta Environment required all facilities that exceeded 100,000 tonnes of CO₂E to reduce their GHG emissions intensity by 12% versus an established baseline emissions intensity. In order to comply with the Alberta regulations, companies

can make operating improvements to their facilities, purchase carbon offsets or make a monetary contribution to the Alberta Climate Change and Emissions Management Fund.

Selected Annual Information

(\$000 except per share amounts)

Financial	2010	2009	2008
Total commodity revenue	25,991	4,799	-
Funds from (used in) operations	11,706	997	(126)
Basic & diluted (\$/share)	0.51	0.21	-
Net loss	(9,623)	(1,224)	(129)
Basic & diluted (\$/share)	(0.42)	(0.26)	-
Development capital expenditures	41,579	429	68
Corporate and property acquisitions (cash-based)	52,572	56,511	-
Total assets	207,424	59,060	192
Bank debt and working capital ⁽¹⁾	29,545	10,315	(194)
Common shares outstanding (000s) ⁽³⁾	41,826	15,312	(2)
Operational			
Average daily production			
Crude oil (bbls/d)	631	105	-
Natural gas (Mcf/d)	4,141	855	-
NGLs (bbls/d)	112	28	-
Total (boe/d)	1,433	275	-

Summary of quarterly results (“unaudited”)

(\$000s, except as noted)	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total commodity revenue	9,746	7,778	3,999	4,468	3,731	1,068	-	-
Funds from (used in) operations	3,681	3,998	1,938	2,089	1,258	4	(154)	(111)
Basic & diluted (\$/share)	0.11	0.14	0.12	0.14	0.08	0.00	-	-
Net income (loss)	(4,361)	(4,916)	(712)	23	(512)	(430)	(163)	(119)
Basic & diluted (\$/share)	(0.13)	(0.16)	(0.04)	0.00	(0.03)	(0.10)	-	-
Development capital expenditures	15,870	14,639	7,252	3,818	411	2	3	13
Corporate and property acquisitions (cash-based)	8,728	41,962	303	1,579	(39)	56,550		
Total assets	207,424	184,345	108,905	64,166	59,060	60,307	222	172
Bank debt and working capital ⁽¹⁾	29,545	46,674	21,014	13,574	10,315	11,965	475	313
Common shares outstanding (000s) ⁽³⁾	41,826	31,448	22,259	15,333	15,312	14,994	(2)	(2)
Operational								
Average daily production								
Crude oil (bbls/d)	973	861	343	337	308	108	-	-
Natural gas (Mcf/d)	5,379	4,828	3,192	3,131	2,470	922	-	-
NGLs (bbls/d)	145	121	89	94	86	24	-	-
Total (boe/d)	2,014	1,787	964	953	806	285	-	-

Notes:

(1) Excludes risk management contracts.

(2) 83 common shares were issued on incorporation.

(3) Reflects 8.33 share exchange and 10 to 1 share consolidation.

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 operated interest in the assets for cash consideration of approximately \$58 million prior to purchase price adjustments.

In the second quarter of 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.

On July 1, 2010, Spitfire amalgamated with its wholly-owned subsidiary Whitecap Resources Inc. and changed its name to Whitecap Resources Inc.

In the third quarter of 2010, the Company completed the acquisition of Onyx 2006 Inc. ("Onyx") for consideration of approximately \$52.0 million. In connection with the acquisition of Onyx, Whitecap completed a bought deal finance offering of 8.9 million subscription receipts at \$4.50 per subscription receipt for total gross proceeds of \$40.1 million. The outstanding receipts were exchanged for common shares effective July 30, 2010.

In the fourth quarter of 2010, the Company completed a bought deal finance offering of 6.9 million common shares at \$5.85 per common share for total gross proceeds of \$40.4 million. Proceeds for the offering were used to initially reduce bank debt and subsequently used to purchase a partner's working interest in the Peace River Arch area. Additionally during the fourth quarter, holders of the \$10.0 million convertible debenture elected to convert the instrument into approximately 3.5 million common shares.

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 are 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.

(\$000s)	2010	2009
Cash flow from operating activities	6,083	602
Changes in non-cash working capital	5,623	395
Funds from operations	11,706	997

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.