2010 ANNUAL REPORT

BUILDING LIGHT OIL
VALUE AND GROWTH

WHITECAP RESOURCES INC

CORPORATE PROFILE

WHITECAP RESOURCES INC. ("WHITECAP" OR THE "COMPANY") IS ENGAGED IN THE ACQUISITION, DEVELOPMENT, OPTIMIZATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS IN WESTERN CANADA. WE HAVE AN ENVIABLE SUITE OF OIL-WEIGHTED, LONG RESERVE LIFE ASSETS WITH SUBSTANTIAL UNBOOKED UPSIDE POTENTIAL, A SIGNIFICANT LEVEL OF DEVELOPMENT WELL INVENTORY AND A STRONG BALANCE SHEET.

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MARCH 8 / 2011
Announced acquisition of Spry Energy Ltd. for $223 million
Significantly expands presence in the Cardium oil resource play

JANUARY 14 / 2011
Acquired partner interest in Valhalla North asset for $25 million
Provides for oil production and reserve growth in core asset

OCTOBER 18 / 2010
Graduated to the Toronto Stock Exchange

JULY 12 / 2010
Acquisition of Onyx 2006 Inc. for $52 million
Entrance into Pembina horizontal Cardium play

JUNE 25 / 2010
Going public transaction through reverse takeover of Spitfire Energy Ltd.
Acquired Fosterton pool in southwest Saskatchewan

SEPTEMBER 17 / 2009
Acquired Valhalla North asset for $58 million
Sets stage for Whitecap with light oil focus

FINANCIAL AND OPERATING HIGHLIGHTS

Whitecap's 2010 year end results include approximately six months of production from the reverse takeover of Spitfire Energy Ltd. and five months of production from the acquisition of Onyx 2006 Inc.

FINANCIAL ($000s)	**2010**	2009
Total revenues	**25,991**	4,799
Funds from operations	**11,706**	997
Basic & diluted ($/share)	**0.51**	0.21
Net loss	**(9,623)**	(1,224)
Basic & diluted ($/share)	**(0.42)**	(0.26)
Development capital expenditures	**41,579**	429
Corporate and property acquisitions (cash-based)	**52,572**	56,511
Bank debt and working capital[(1)]	**29,545**	10,315
OPERATING		
Production		
Crude oil (bbls/d)	**631**	105
Natural gas (Mcf/d)	**4,141**	855
NGLs (bbls/d)	**112**	28
Total (boe/d)	**1,433**	275
Average realized price		
Crude oil ($/bbl)	**74.89**	73.99
Natural gas ($/Mcf)	**4.24**	4.55
NGLs ($/bbl)	**56.95**	54.32
Total ($/boe)	**49.68**	47.82
Netbacks ($/boe)		
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 netbacks prior to hedging	**28.50**	24.96
Realized hedging gain	**1.04**	–
Operating netbacks	**29.54**	24.96
Total wells drilled	**17.0**	–
Working interest wells	**10.6**	–
Success rate	**100%**	–
Undeveloped land holdings (acres)		
Gross	**66,973**	11,280
Net	**46,228**	4,111
Common shares, end of period (000s)	**41,826**	15,312
Weighted average shares (000s)	**23,162**	4,721

(1) Excludes risk management contracts.

MESSAGE TO SHAREHOLDERS

YEAR IN REVIEW

2010 was an eventful and exceptional year for us. We began the year with a well-defined strategy to increase our exposure to light oil value and growth opportunities. Our execution was purposeful and disciplined as we increased our leverage to oil production as well as assembling an inventory of oil opportunities for future growth.

The successful results of this past year are directly attributable to the strength and vision of our employees. Their ability to identify and capture valuable light oil based assets and generate a considerable inventory of light oil development wells has provided us with an enviable oil platform from which to grow. We are geographically concentrated in three regions in Western Canada; being the Peace River Arch area of northwestern Alberta, the Pembina area of west central Alberta and the Fosterton area of southwest Saskatchewan.

We started 2010 as a private company producing approximately 900 boe/d (45% oil & NGLs) from our Valhalla North asset. In June, we completed a reverse takeover of Spitfire Energy Ltd., a publicly traded company which provided us with an additional 360 boe/d (85% oil) of production and resulted in us becoming a publicly traded entity on the TSX Venture Exchange. In July, we acquired Onyx 2006 Inc., a private company with assets that included 600 boe/d (50% oil and NGLs) focused in the Pembina Cardium area and which provided us with a third core area from which to grow. These acquisitions and our strong internal performance have provided us with a substantial amount of development and exploitation upside in areas that are accessible year round. Our aggressive but disciplined approach to growth and our graduation to the Toronto Stock Exchange on October 18, 2010 have allowed us to build a strong institutional shareholder base.

HIGHLIGHTS

/ Grew our average production 150 percent from 806 boe/d in the fourth quarter of 2009 to 2,014 boe/d in the fourth quarter of 2010 through strategic oil-weighted acquisitions and internally generated growth.

/ Our 2010 exit production rate was 3,200 boe/d (60 percent oil and NGLs) compared to 731 boe/d for 2009 (46 percent oil and NGLs), a 338 percent increase, as a result of an active second half drilling program.

/ Generated cash flow of $11.7 million on an operating netback of $29.54/boe in 2010 compared to cash flow of $1.0 million and an operating netback of $24.96/boe in the prior year.

/ Invested $40.3 million in field expenditures consisting of $36.9 million for drilling, completing and the tie-in of 17 (10.6 net) wells with a 100 percent success rate, $2.1 million for recompleting and optimizing 18 wells and $1.3 million for land, seismic and our waterflood simulation study.

/ Completed two significant oil-weighted corporate acquisitions and eight minor property acquisitions in our three core areas totaling $92 million.

/ Increased our drilling inventory three-fold from 60 to 180 wells of which 96 percent are oil opportunities.

/ Increased proved plus probable gross reserves by 169 percent to 13.7 MMboe (65 percent oil and NGLs) and proved gross reserves by 192 percent to 8.3 MMboe (64 percent oil and NGLs).

/ Achieved finding, development and acquisition ("FD&A") costs of $14.52 per proved plus probable boe, excluding changes in future development costs, generating a recycle ratio of 2.5 times based on our current operating netback of $35.50/boe.

LOOKING AHEAD

We anticipate that our business plan going forward will not alter dramatically from our 2010 plan. We will remain focused on large oil resource-in-place assets where application of advancing horizontal frac technology is significantly improving operating results and increasing reserve recovery factors. We will continue to measure our success by our growth in production, reserves, net asset value and cash flow on a per share basis. As well, our financing strategy will again be designed to support value creation through the turbulent commodity price environment that we are currently experiencing and expect to continue for the remainder of the year.

We are fortunate to have the majority of our production from high netback oil. The challenge for industry is to keep the cost of finding new production and reserves as low as possible as well as the necessity to gain timely access to services. Whitecap is prepared and committed to meet the challenges that we contemplate the future will bring and we remain confident that we will be able to deliver exceptional operational and financial per share results for Whitecap shareholders in 2011 and beyond.

In closing, I would like to express my appreciation to our employees for their focus and determination, to our Board of Directors for their time and guidance and to our shareholders and stakeholders for their support and belief in us. With continued optimism and enthusiasm, I remain!

On behalf of the Board,

GRANT FAGERHEIM
PRESIDENT AND CHIEF EXECUTIVE OFFICER

March 22, 2011

REVIEW OF OPERATIONS

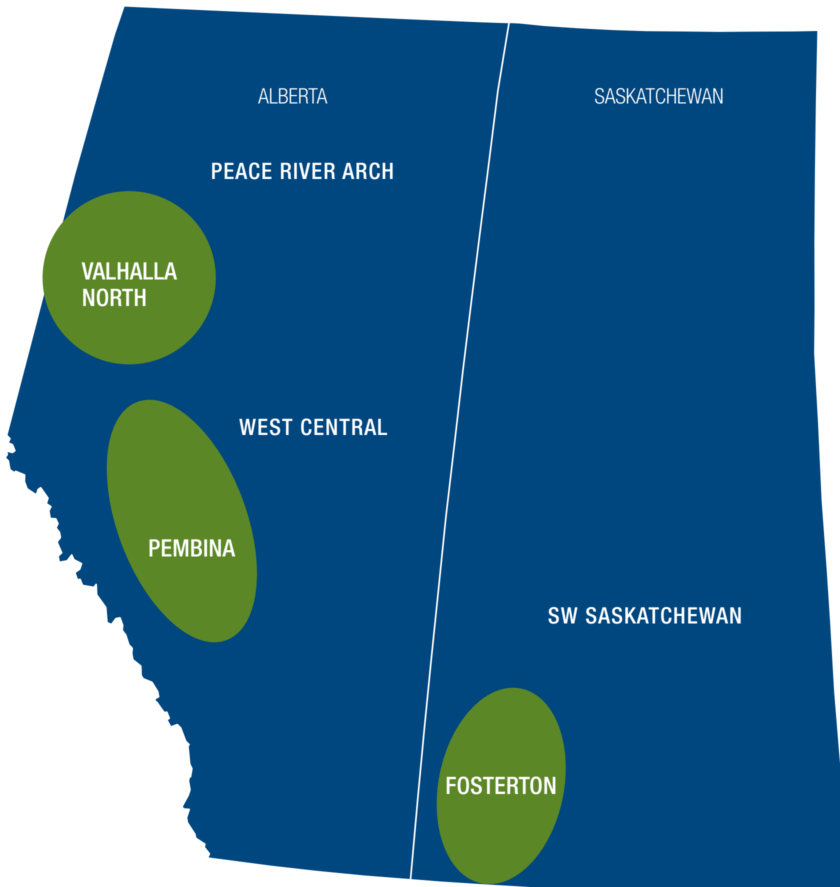
OVERVIEW

Whitecap employs a strategy of entering scalable and repeatable resource type plays early in their development life cycle. Our targeted entry point is early enough in the play's life cycle that we can benefit from economic efficiencies but late enough that the early stage economic risk has been removed.

Whitecap uses an aggressive but disciplined approach to acquisitions, ensuring they provide a strong foundation for organic growth through the drill bit. We evaluate many opportunities large and small, but only transact when they will add value to Whitecap. In 2010 we completed two corporate acquisitions, eight property acquisitions and drilled 17 wells (10.6 net) with a 100 percent success rate.

The combination of acquisitions and organic growth resulted in 2010 year end proved reserves of 8.3 MMboe and proved plus probable reserves of 13.7 MMboe. When we include the January 2011 acquisition of a partner interest in Valhalla, proved reserves increase to 9.2 MMboe and proved plus probable reserves increase to 15.3 MMboe; a 225 percent and 201 percent from the prior year, respectively.

Our three core operating areas currently consist of the Valhalla North asset in the Peace River Arch area of northwestern Alberta, the Pembina area of west central Alberta and the Fosterton area of southwest Saskatchewan.



OIL RESOURCE PLAYS

References to "DPIIP" in this document means Discovered Petroleum Initially In Place and is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation, plus those estimated quantities in accumulations yet to be discovered. There is no certainty that it will be economically viable or technically feasible to produce any portion of this DPIIP except for those identified as proved or probable reserves.

PEACE RIVER ARCH– ANCHORS WHITECAP'S UNDERLYING VALUE

The Valhalla North property is located in the Peace River Arch area of Alberta and is characterized by shallow declines, a predictable reserve base and a consistent working interest (50%). The property has multiple prospective oil and gas zones which allows us to focus on the oil potential in the near to medium-term and provides the Company with an option on future gas price increases.

The primary resource plays that Whitecap is currently focused on are the large Montney Sexsmith oil pool and the Middle Montney oil pools which overlie the Montney Sexsmith zone. Our technical expert analyses have led to the confirmation of a large DPIIP within our Valhalla area. We will continue to further evaluate the multi-zone potential and the most efficient methods of extraction.

Montney Sexsmith

Key characteristics

- Light oil 36° API
- Homogenous reservoir
- No formation water
- Very successful waterflood in place on a small portion of the pool

Gross resource potential

- DPIIP 83 MMbbls
- Recovered to date 8 percent or 6.9 MMbbls
- Current booked recovery 16 percent or 13.3 MMbbls
- Expected ultimate recovery on waterflood of approximately 40 percent or 21.7 MMbbls of incremental reserves

Whitecap has been the first to apply horizontal multi-frac technology in the Montney Sexsmith pool and as a result has been able to generate superior returns than those generated by vertical wells. The horizontal wells drilled qualify for the five percent royalty rate on up to 70,000 to 80,000 boe and for a maximum of 30 to 36 months which significantly enhances the economics of the wells.

Middle Montney

Key characteristics

- Light oil 36° API
- High quality reservoir
- Waterflood potential
- Synergies with the Montney Sexsmith pool

Gross resource potential

- DPIIP 38 MMbbls
- Recovered to date 1.8 percent or 0.7 MMbbls
- Current booked recovery 3.9 percent or 1.5 MMbbls
- Expected ultimate recovery approximately 40 percent on waterflood or 13.8 MMbbls of incremental reserves

WEST CENTRAL ALBERTA – EARLY STAGE GROWTH AREA

Our key Cardium oil producing properties are located in East Pembina, South Pembina and the Willesden Green areas of West Central Alberta. This is an early stage resource play being developed with horizontal multi-frac technology where advancements in this technology will continue to increase productivity and decrease costs. In the medium-term, continued development of this resource and the associated production history will provide the framework for significant reserve additions as industry's confidence in the Cardium performance matures and optimal developments are put in place.

Cardium

Key characteristics

- Light oil 40° API
- Geology and DPIIP mapping are well defined
- No formation water with production in the Cardium

Gross resource potential

- DPIIP 166 MMbbls
- Recovered to date 0.1 percent or 0.2 MMbbls
- Current booked recovery 3.2 percent or 5.3 MMbbls
- Expected primary recovery ranges from 10 percent to 15 percent or 11.3 MMbbls to 19.6 MMbbls of incremental reserves
- Potential waterflood recovery ranges from 25 percent to 40 percent or 36 to 61 MMbbls incremental over what is currently booked.

The Cardium play with its 40° light oil generates high netbacks and coupled with advances in horizontal frac technology allows Whitecap to generate superior rates of return. The horizontal wells drilled qualify for the five percent royalty rate on up to 60,000 boe and for a maximum of 24 months which significantly enhances the economics of this development.

SOUTHWEST SASKATCHEWAN – INFILL DRILLING PROJECT

The main Roseray resource play is located at Fosterton in southwest Saskatchewan. This is a low risk infill drilling project consisting of shallow drilling depths (1,000m) and conventional, non-frac'd completions which leads to low development costs.

Roseray

Key characteristics

- Medium oil 22° API
- Very stable and predictable production profile
- Consistent and repeatable economics

Gross resource potential

- DPIIP 31 MMbbls
- Recovered to date 9 percent or 2.8 MMbbls
- Current booked recovery 13.8 percent or 4.3 MMbbls
- Expected ultimate recovery greater than 35 percent or more than 6.5 MMbbls of incremental reserves

In addition to the Roseray infill opportunities there are several new oil opportunities emerging due to the advancement in horizontal frac technology.

LAND HOLDINGS

As at December 31, 2010, Whitecap's land base was 77,872 net acres with an average working interest of 60 percent. Of this total, 46,228 net acres were undeveloped. Our land holdings translate to over 180 locations of which 125 are unbooked with 96 percent being oil opportunities.

RESERVES

McDaniel Engineering Consultants Ltd. ("McDaniel"), an independent petroleum engineering firm, has evaluated the crude oil, natural gas and natural gas liquids reserves of the Company effective December 31, 2010 and prepared a reserves report in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and the Canadian Oil and Gas Evaluation Handbook. Full and complete disclosure of information as required by NI 51-101 can be referenced in the Company's Annual Information Form ("AIF").

The following is an overview of the McDaniel's report:

SUMMARY OF COMPANY GROSS RESERVES (FORECAST PRICING)[1][2]	Oil (Mbbls)	Gas (MMcf)	NGL (Mbbls)	Total (Mboe)
Proved producing	2,914	11,032	312	5,064
Proved non-producing	125	1,388	27	384
Undeveloped	1,801	5,224	138	2,810
Total proved	4,840	17,644	477	8,257
Probable	3,348	10,783	274	5,419
Total proved plus probable	8,188	28,427	751	13,676

SUMMARY OF BEFORE TAX NET PRESENT VALUES (FORECAST PRICING) ($M)[1][2][5]	0%	5%	10%
Proved producing	205,576	156,453	126,647
Proved non-producing	10,735	8,194	6,409
Undeveloped	80,078	46,855	27,225
Total proved	296,390	211,502	160,281
Probable	234,822	133,287	85,163
Total proved plus probable	531,211	344,790	245,443

RESERVE RECONCILIATION (Mboe)[1][2]	Proved	Probable	Proved Plus Probable
Opening balance December 31, 2009[3][4]	2,828	2,255	5,083
Development	964	97	1,061
Revisions	363	(126)	237
Acquisitions	4,625	3,193	7,818
Production	523	–	523
Closing balance December 31, 2010	8,257	5,419	13,676

PERFORMANCE RATIOS	Total Proved	Proved Plus Probable
FINDING, DEVELOPMENT AND ACQUISITION COSTS ($/boe)[6]		
2010 FD&A cost (excludes change in "FDC")	22.23	14.52
RECYCLE RATIO[7]		
Using current field netback of $35.50/boe	1. 6	2.5
RESERVE LIFE INDEX (years)[8]		
2010 exit production rate – 3,200 boe/d	7.1	11.7

(1) Gross Company reserves are the Company's total interest share before the deduction of any royalties and without including any royalty interest of the Company.
(2) Based on McDaniel's January 1, 2011 escalated price forecast.
(3) Based on Whitecap's internally prepared reserve evaluation using GLJ Petroleum Consultants' January 1, 2010 escalated price forecast.
(4) Whitecap is the resulting entity following the completion of the reverse takeover of Spitfire Energy Ltd. ("Spitfire") by Whitecap and the subsequent amalgamation of Whitecap and Spitfire on July 1, 2010. In accordance with GAAP, Whitecap was deemed to be the acquirer of Spitfire and therefore, the December 31, 2009 reserves information reflects Whitecap's reserves as at December 31, 2009.
(5) The net present values of future net revenue do not represent fair market value.
(6) FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the capital costs for the period, by the change in the reserves, incorporating revisions and production, for the same period. The capital expenditures include the announced purchase price of corporate acquisitions rather than the amounts allocated to property, plant and equipment for accounting purposes. The capital expenditures also exclude capitalized administration costs and acquisition costs. FD&A costs including FDC is $32.67/Mboe for proved reserves and $25.91/Mboe for proved plus probable.
(7) The Recycle Ratio is calculated by dividing the field netback per boe by the FD&A costs for the period. The recycle ratio is comparing the netback from existing reserves to the cost of finding new reserves and may not accurately indicate investment success unless the replacement reserves are of equivalent quality as the produced reserves.
(8) The reserve life index is calculated by dividing the reserves (in Mboe) in each category by the annualized exit production rate in boe/year.

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 Corporation 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 average 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 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

[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$100.00/bbl ceiling	C$WTI	Jul to Dec 2011

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

TYPE	VOLUME	PRICE	INDEX	TERM
Swap	1,000 GJ/d	$3.85/GJ	AECO	Feb to Dec 2011

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

TYPE	VOLUME	PRICE	TERM
Swap	3,506 MWh	$49.60/MWh	Jan 2011 to Dec 2011
Swap	1,139 MWh	$46.06/MWh	Jan 2011 to Dec 2011

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 were 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 on occasion.

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 Alberta

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.

Southwest 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, 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 ("CO_2E") 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 CO_2E 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

($000s except per share amounts)	**2010**	2009	2008
FINANCIAL			
Total commodity revenue	**25,991**	4,799	–
Funds from (used in) operations	**11,706**	997	(126)
Basic & diluted ($/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")

	2010				2009			
($000s, except as noted)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
FINANCIAL								
Total commodity revenue	**9,746**	**7,778**	**3,999**	**4,468**	3,731	1,068	–	–
Funds from (used in) operations	**3,681**	**3,998**	**1,938**	**2,089**	1,258	4	(154)	(111)
Basic & diluted ($/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	–	–

[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 document 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 document 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 document 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 document 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 document).

The forward-looking information and statements contained in this document speak only as of the date of this document, 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 is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and cash flow, within reasonable limits of materiality and within the framework of the accounting policies as outlined in the notes to the financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate. The Audit Committee of the Board of Directors has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

GRANT B. FAGERHEIM
PRESIDENT AND CEO

THANH KANG
VICE PRESIDENT FINANCE AND CFO

March 22, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Whitecap Resources Inc.

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
CALGARY, ALBERTA

March 22, 2011

BALANCE SHEET

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

See accompanying notes to financial statements

Approved on behalf of the Board:

STEPHEN C. NIKIFORUK
DIRECTOR

GRANT B. FAGERHEIM
DIRECTOR

STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31 ($000s, except per share amounts)	2010	2009
REVENUE		
Petroleum and natural gas revenue	**25,991**	4,799
Royalties	**(3,891)**	(932)
Other income	**336**	19
	22,436	3,886
Realized gain on risk management contracts	**543**	–
Unrealized gain (loss) on risk management contracts [Note 13]	**(2,001)**	24
	20,978	3,910
EXPENSES		
Operating	**6,659**	1,199
Transportation	**866**	181
General and administrative [Note 10]	**7,697**	1,313
Interest and financing	**1,984**	599
Depletion, depreciation and accretion	**15,421**	2,263
	32,627	5,555
Net loss before income taxes	**(11,649)**	(1,645)
TAXES		
Future income tax recovery [Note 14]	**2,026**	421
Net loss and other comprehensive loss	**(9,623)**	(1,224)
DEFICIT, BEGINNING OF PERIOD	**(1,353)**	(129)
DEFICIT, END OF PERIOD	**(10,976)**	(1,353)
NET LOSS PER SHARE [Note 11]		
Basic and diluted ($/share)	**(0.42)**	(0.26)

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

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

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

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

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

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

2. SUMMARY OF ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

MEASUREMENT UNCERTAINTY

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

REVENUE RECOGNITION

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

TRANSPORTATION

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

JOINT INTERESTS

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

DEPLETION AND DEPRECIATION

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

(a) total estimated proved reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;

(b) total capitalized costs, excluding unproved lands, plus estimated future development costs of proved undeveloped reserves, including future estimated asset retirement costs; and

(c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

PROPERTY, PLANT AND EQUIPMENT ("PP&E")

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

IMPAIRMENT

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

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

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

ASSET RETIREMENT OBLIGATIONS

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

STOCK-BASED COMPENSATION

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

INCOME TAXES

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

FINANCIAL INSTRUMENTS

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

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

(a) Held-for-trading

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

(b) Available-for-sale assets

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

(c) Held-to-maturity investments, loans and receivables and other financial liabilities

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

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

3. NEW ACCOUNTING POLICIES

Current Accounting Changes

- The CICA issued sections 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests”, which replaces existing guidance under Section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements, and section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary. These standards will be effective on January 1, 2011. The adoption of these sections does not impact the Company’s financial statements at this time.
- “Business Combinations”, Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. The adoption of this standard impacts the accounting treatment of business combinations entered into after January 1, 2011. The standard allows for Companies to use “Business Combinations”, Section 1581 until the end of 2010. The Company has opted to use Section 1581.

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

4. FINANCIAL ASSETS AND CREDIT RISK

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

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

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

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

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

5. ACQUISITIONS

(a) Spitfire Energy Ltd. (Reverse takeover)

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

NET ASSETS ACQUIRED ($000s):	2010
Non-cash working capital deficiency	(8,571)
Petroleum and natural gas properties	34,355
Asset retirement obligations	(636)
Future income tax liability	(4,063)
	21,085
CONSIDERATION	
Issuance of shares	20,002
Transaction costs	1,083
	21,085

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

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

NET ASSETS ACQUIRED ($000s):	2010
Non-cash working capital deficiency	(10,958)
Petroleum and natural gas properties	63,440
Asset retirement obligations	(692)
Future income tax liability	(10,876)
	40,914
CONSIDERATION	
Cash consideration paid	40,534
Transaction costs	380
	40,914

PROPERTY AND EQUIPMENT

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

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

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

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

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

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

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

6. FINANCIAL LIABILITIES AND LIQUIDITY RISK

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

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

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

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

7. CREDIT FACILITIES

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

8. CONVERTIBLE DEBENTURES

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

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

9. ASSET RETIREMENT OBLIGATION

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

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

10. SHARE CAPITAL

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

a) Authorized

Unlimited number of common shares without nominal or par value.

b) Issued and outstanding

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

(1) Reverse takeover bid

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

(2) Share subscription

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

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

(3) Conversion of convertible debenture

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

c) Stock options

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

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

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

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

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

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

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

d) Warrants

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

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

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

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

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

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

e) Contributed Surplus

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

11. PER SHARE RESULTS

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

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

12. CAPITAL MANAGEMENT

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

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Assets and Liabilities

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

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

[1] The fair value measurement of the risk management contracts has a fair value hierarchy of Level 2.

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

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

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

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

Market Risk Management

Commodity Price Risk

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

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

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

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

TYPE	VOLUME	PRICE	INDEX	TERM
Swap	500 bbls/d	C$86.85/bbl	C$WTI	Jan to Jun 2011
Swap	500 bbls/d	C$87.60/bbl	C$WTI	Jan to Dec 2011
Collar	300 bbls/d	C$75.00/bbl floor/ C$100.00/bbl ceiling	C$WTI	Jul to Dec 2011

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

TYPE	VOLUME	PRICE	INDEX	TERM
Swap	1,000 GJ/d	$3.85/GJ	AECO	Feb to Dec 2011

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

TYPE	VOLUME	PRICE	TERM
Swap	3,506 MWh	$49.60/MWh	Jan 2011 to Dec 2011
Swap	1,139 MWh	$46.06/MWh	Jan 2011 to Dec 2011

Interest Rate Risk

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

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

Foreign Exchange Risk

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

14. INCOME TAXES

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

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

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

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

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

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

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

COMMITMENTS

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

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

15. RELATED PARTY TRANSACTIONS

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

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP ("BDP") to provide Whitecap with legal services. Grant Zawalsky, a director of Whitecap, is a partner of this firm. During the year ended December 31, 2010, the Company incurred $0.4 million to BDP for legal fees and disbursements. These amounts have been recorded at the exchange amount. The Company expects to retain the services of BDP from time to time. As of December 31, 2010 a payable balance of $0.1 million was outstanding.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

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

17. SUBSEQUENT EVENTS

In December, the Company announced that it had entered into an agreement to purchase a partner's working interest in the Peace River Arch. The transaction closed on January 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.

OFFICERS

Grant B. Fagerheim
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Joel Armstrong
Vice President Production & Operations

Dan Christensen
Vice President Exploration

Darin Dunlop
Vice President Engineering

Thanh Kang
Vice President Finance & CFO

Gary Lebsack
Vice President Land

David Mombourquette
Vice President Business Development

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Glenn A. McNamara
Stephen C. Nikiforuk
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ANNUAL GENERAL MEETING

The Annual and General Meeting of Shareholders will be held at 10:30 a.m. on Tuesday, May 17, 2011, in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4th Avenue SW, Calgary, Alberta. All shareholders are cordially invited and encouraged to attend.

ABBREVIATIONS

Abbreviation	Meaning
AECO	Alberta Energy Company
bbls	barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bp/d	barrels per day
bop/d	barrels of oil per day
DPIIP	Discovered petroleum initially in place
FD&A	Finding, development & acquisition
FDC	Future development costs
GJ	gigajoule
Mbbl	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
Mstb	1000 stock tank barrels
NGLs	natural gas liquids
WTI	West Texas Intermediate

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

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