

# Whitecap Resources Inc. and Midway Energy Ltd. Announce Significant Light Oil Combination, \$120 Million Bought Deal Financing and Increased 2012 Guidance

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[Whitecap Resources Inc.](#) ("Whitecap" or the "Company") (TSX: WCP) and [Midway Energy Ltd.](#) ("Midway") (TSX: MEL) are pleased to announce that they have entered into an arrangement agreement (the "Arrangement Agreement") providing for the acquisition by Whitecap of all the issued and outstanding common shares of Midway (the "Transaction"). Midway is a light oil weighted public company with its primary operations located in the Garrington area of Alberta where the majority of its production and reserves are focused in the Cardium formation. Under the terms of the Transaction, Midway shareholders shall receive, for each Midway common share held, at the election of the holder: i) \$4.85 cash; or ii) 0.4802 of a Whitecap common share (a "Whitecap Share"); or iii) a combination of cash and Whitecap Shares, subject in each case to a maximum. The maximum aggregate cash amount payable to Midway shareholders shall be approximately \$111.2 million and the maximum number of Whitecap Shares to be issued to Midway shareholders shall be approximately 33.5 million Whitecap Shares. Holders of Midway warrants that are exercisable at an exercise price of \$4.00 per Midway common share ("Midway warrants") will receive \$0.85 in cash for each Midway warrant held. Whitecap will also assume the debt of Midway, estimated at \$100.8 million, after taking into account anticipated option proceeds and Transaction and severance costs, as at February 28, 2012.

The \$4.85 per share Transaction value represents a 12.8% premium to the closing market price of the Midway common shares on February 27, 2012 and a 22.3% premium to the volume weighted average trading price of the Midway common shares for the 10 trading days ending February 27, 2012. The total Transaction value is approximately \$550.3 million, including the assumption of net debt.

The Transaction will be funded in part through a \$120.0 million bought deal financing (the "Offering").

## SUMMARY OF THE TRANSACTION

Through the Transaction, Whitecap is acquiring high quality, high netback light oil assets, located predominantly in the Garrington area of Alberta and focused on the Cardium formation. The acquired Cardium assets are complementary to Whitecap's existing horizontal drilling operations in the Pembina Cardium play and have significant growth and upside potential. The Garrington Cardium asset has an extensive low risk development inventory of 199 (144 net) Cardium drilling locations. The production to be acquired at the time of closing will be 5,400 boe/d (67% oil + NGLs). The Garrington Cardium provides compelling full-cycle economics and is analogous to Whitecap's current Pembina Cardium operations. The Transaction also provides Whitecap with additional upside in the Beaverhill Lake light oil play in the Swan Hills area of Alberta in which Midway holds interests in 38 gross sections of land.

The Transaction has the following characteristics:

Total Transaction price (including net debt)	\$550.3 million
Production(1)	5,400 boe/d (67% Oil + NGLs)
Proved reserves(2)	19.0 MMboe (67% Oil + NGLs)
Proved plus probable reserves(2)	26.6 MMboe (68% Oil + NGLs)
Proved plus probable RLI(3)	13.5 years
Operating netback(4)	\$43.00/boe

Net of undeveloped land at an estimated value of \$30.1 million, using \$300/acre, the associated Transaction metrics are as follows:

Production	\$96,300/boe/d		
Proved reserves	\$27.38/boe		
Proved plus probable reserves		\$19.56/boe	
Proved plus probable reserves recycle ratio			2.2x

The Transaction is forecast by Whitecap to be 3.1% accretive on 2012 cash flow per share, 5.5% accretive on 2012 production per share, 6.4% accretive on proved plus probable reserves per share and 5.5% accretive on net asset value per share, on a fully diluted basis, after accounting for the dilution incurred by the Offering.

## **STRATEGIC RATIONALE**

The Transaction represents the successful continuation of Whitecap's business plan to acquire high quality light oil assets that have been "de-risked" but still provide significant development growth upside. In addition to expanding Whitecap's cash flow base, the Transaction more than doubles Whitecap's Cardium oil development drilling inventory. Whitecap will apply its existing expertise in developing the Cardium play to the Garrington inventory. Similar to the development of its East Pembina Cardium, Whitecap believes that the Garrington Cardium can be expanded through increased drilling density and enhanced oil recovery techniques.

The Transaction also offers Whitecap excellent future upside in the Swan Hills area targeting the emerging Beaverhill Lake platform oil play.

After giving effect to the Transaction, Whitecap will have 878 (570 net) low risk oil development drilling locations in inventory, which positions the Company for continued low risk growth in the future.

In summary, the highlight benefits of the Transaction to Whitecap include:

- Accretive to Whitecap on all financial and operational metrics.
- Increases in Whitecap's proved plus probable reserves with a before tax net present value discounted at 10% of over \$1.3 billion.
- Increasing Whitecap's Cardium focused assets in its West Central core area, with significant development upside in production, reserve additions, cash flow and net asset value.
- Concentrated high working interest properties with Company owned infrastructure and over 91% of the production and associated growth opportunities being within a 10 by 40 mile area.
- Optionality along with low cost entrance to a potentially material Beaverhill Lake oil development in the Swan Hills area.
- Only 32% of the identified development locations are included in the independent reserves evaluation of Midway.

## **Garrington Cardium Assets**

The Cardium in Garrington has very similar characteristics to Whitecap's existing Cardium assets in West Central Alberta. Some of the key characteristics include:

- High quality sweet crude oil with average 39° API which sells at a comparable price to the Edmonton light benchmark.
- Costs per well to drill, complete and tie-in are approximately \$2.7 million.
- The majority of wells are pipeline connected to operated central batteries and oil sales lines.
- Current reserve assignments represent a recovery factor of 5.4%. Whitecap estimates that on full primary development this recovery will approach 12 to 15% and up to 20% on secondary recovery.

## **Swan Hills Beaverhill Lake Assets**

The Transaction includes 38 (18 net) sections of Beaverhill Lake oil rights in the Swan Hills area. The Beaverhill Lake is an emerging resource play with the following characteristics:

- Light sweet crude oil 40° API at an average depth of 2,600 meters in true vertical depth with 1,400 meter horizontal sections that are fracture stimulated.
- The Beaverhill Lake play in Swan Hills is at a much earlier point in the evaluation and development cycle than the West Central Cardium resource play.

## INCREASED 2012 GUIDANCE

On a stand-alone basis, Whitecap is pleased to announce that it is currently producing greater than 10,600 boe/d (64% light oil + 3% NGLs). Following the Transaction, Whitecap will expand on its projected 2012 capital program, which is directed 100% towards oil opportunities.

The Company's increased operational guidance for 2012, after giving effect to the Transaction and the Offering is as follows:

	Pro forma	Previous		%
	2012	2012		Increase
	Guidance	Guidance		
Average production (boe/d)	15,500	10,800		44%
Per mm shares (fd)	123	130	6%	
% Oil + NGLs	69%	-		
Exit production (boe/d)	18,500	12,000		54%
% Oil + NGLs	70%	-		
Development capital expenditures (\$MM)		265	185	43%
Wells drilled (gross)	133	92	45%	
Cash flow (\$MM)(4)(5)	241	172	40%	
Per share (\$fd)	2.01	1.96	3%	
Net debt to cash flow	1.1x	1.1x	-	

Through the Transaction, Whitecap will materially increase its light oil drilling inventory, reserves and production base. The combination with Midway is another step in Whitecap's continued strategy to maintain excellent per share growth and prudent debt management as we move towards providing shareholders with long term sustainable income through dividends to complement our growth strategy.

## PLAN OF ARRANGEMENT

Whitecap and Midway have entered into the Arrangement Agreement pursuant to which Whitecap and Midway have agreed that the Transaction will be conducted by means of a plan of arrangement under the Business Corporations Act (Alberta). Whitecap will pay a maximum of approximately \$111.2 million in cash and issue a maximum of approximately 33.5 million Whitecap Shares to the shareholders of Midway, in exchange for all of the outstanding common shares of Midway, subject to the terms and conditions of the Arrangement Agreement. Whitecap will also pay \$0.85 per Midway warrant to holders of Midway warrants.

The Board of Directors of Midway have unanimously approved the Transaction and recommended that the holders of Midway common shares and Midway warrants vote in favour of the Transaction. All of the directors and officers of Midway (other than one director who recused herself from the process of considering the Transaction) have entered into agreements with Whitecap pursuant to which they have agreed to vote their shares in favour of the Transaction.

The Board of Directors of Whitecap have unanimously approved the Transaction and recommended that the shareholders of Whitecap vote in favour of the issuance of Whitecap Shares pursuant to the Transaction. All of the directors and officers of Whitecap have entered into agreements with Midway pursuant to which they have agreed to vote their shares in favour of the Transaction.

The Arrangement Agreement provides for non-solicitation covenants, subject to the fiduciary obligations of the Board of Directors of Midway and the right of Whitecap to match any Superior Proposal (as defined in the Arrangement Agreement). The Arrangement Agreement provides for mutual non-completion fees of \$27.5 million in the event the Transaction is not completed or is terminated by either party in certain

circumstances. The Arrangement Agreement provides that completion of the Transaction is subject to certain conditions, including the receipt of all required regulatory approvals, including the approval of the Toronto Stock Exchange ("TSX"), the approval of the shareholders of Whitecap, the approval of the holders of Midway common shares and Midway warrants including, if applicable, the approval of the disinterested shareholders, and the approval of the Court of Queen's Bench of Alberta. A joint management information circular and proxy statement outlining the details of the Arrangement Agreement will be mailed to the holders of Midway common shares and Midway warrants and Whitecap shareholders in March 2012 for meetings to be held in late April 2012, where holders of Midway common shares, Midway warrants, and Whitecap shareholders will be permitted to vote on the Arrangement. The Transaction is anticipated to close on or about April 25, 2012.

## FINANCIAL ADVISORS

National Bank Financial Inc. and GMP Securities L.P. are acting as financial advisors to Whitecap and Macquarie Capital Markets Canada Ltd. is acting as strategic advisor to Whitecap with respect to the Transaction. GMP Securities L.P. has provided the Board of Directors of Whitecap with its verbal opinion that, subject to its review of the final form of documents effecting the Transaction, the consideration to be offered by Whitecap pursuant to the terms of the Arrangement Agreement is fair, from a financial point of view, to Whitecap shareholders.

## FINANCING

In connection with the Transaction, Whitecap has entered into an agreement with a syndicate of underwriters co-led by GMP Securities L.P. and National Bank Financial Inc. and including Macquarie Capital Markets Canada Ltd., Dundee Securities Ltd., FirstEnergy Capital Corp., Cormark Securities Inc., Scotia Capital Inc. and Desjardins Securities Inc. (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase for resale to the public, on a bought deal basis, 5,941,000 units of Whitecap (the "Units") at a price of \$20.20 per Unit (the "Offering Price") to raise gross proceeds of approximately \$120.0 million. Each Unit is comprised of one Whitecap Share at a price of \$10.10 per Whitecap Share and one subscription receipt of Whitecap ("Subscription Receipt") at a price of \$10.10 per Subscription Receipt. The gross proceeds from the sale of Subscription Receipts will be held in escrow pending the completion of the Transaction. If the Transaction is completed on or before May 15, 2012, or such later date as may be agreed to by the Underwriters, the net proceeds from the sale of the Subscription Receipts will be released to Whitecap and each Subscription Receipt will be exchanged for one Whitecap Share for no additional consideration. If the Transaction is not completed by Whitecap on or before May 15, 2012, and the Underwriters have not agreed to extend such date, or the Arrangement Agreement is terminated at an earlier time, then the purchase price for the Subscription Receipts shall be returned to subscribers, together with a pro rata portion of the interest accrued on the subscription funds attributable to the Subscription Receipts. Whitecap has also granted the Underwriters an over-allotment option exercisable at any time on, or for a period of 30 days following the closing of the Offering, to acquire an additional 891,150 Units to cover over-allotments, if any, and for market stabilization purposes, at the Offering Price, for additional aggregate gross proceeds of up to \$18.0 million. If the Over-Allotment Option is fully exercised, gross proceeds from the Offering will be approximately \$138.0 million. The net proceeds of the Offering will be used to fund the cash component of the Transaction payable by Whitecap pursuant to the Arrangement Agreement, to fund capital expenditures and for general corporate purposes.

Completion of the Offering is subject to certain conditions including the receipt of all necessary regulatory approvals, including the approval of the TSX. The Units will be offered in each of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba and Ontario (and such other jurisdictions in Canada as may be agreed to by Whitecap and the Underwriters) by way of a short form prospectus in the United States on a private placement basis pursuant to exemptions from the registration requirements under Rule 144A and/or Regulation D of the United States Securities Act of 1933 and in such other international jurisdictions as may be agreed to by Whitecap and the Underwriters.

Closing of the Offering is expected to occur on or about March 19, 2012.

- (1) Anticipated production at the time of closing of the Transaction.
- (2) Based on Gross Reserves which means Midway's working interest reserves before the calculation for royalties, and before the consideration of Midway's royalty interest reserves. Reserves estimates are based on Whitecap's internal evaluation and were prepared by a member of Whitecap's management who is a qualified reserves evaluator in accordance with National Instrument 51-101 effective December 31, 2011.
- (3) Based on production of 5,400 boe/d.
- (4) Based on US\$92.50/bbl WTI, C\$3.00/GJ AECO and C\$/US\$exchange ratio of 0.98.
- (5) Funds from operations are a non-GAAP measure. Refer to the Non-GAAP measures section of this press

release.

### **Note Regarding Forward-Looking Statements and Other Advisories**

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to the Company's plans and other aspects of Whitecap's anticipated future operations, management focus, strategies, financial, operating and production results and business opportunities, including the information under "Increased 2012 Guidance", expected 2012 production, cash flow, operating netbacks, debt ratios, our capital expenditure program, drilling and development plans and the timing thereof. In addition, and without limiting the generality of the forgoing, this press release contains forward looking information regarding the proposed Transaction including the impact of the Transaction on Whitecap and Whitecap's results and development plans, the timing and anticipated closing date for the Transaction, the Offering and the timing of the Offering and future events in regards to the Subscription Receipts. Forward-looking information typically uses words such as "anticipate", "believe", "project", "expect", "goal", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future.

The forward-looking information is based on certain key expectations and assumptions made by Whitecap's management, including expectations and assumptions concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; future production rates and estimates of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; results of operations; performance; business prospects and opportunities; the availability and cost of the Offering, labour and services; the impact of increasing competition; ability to market oil and natural gas successfully, Whitecap's ability to access capital and obtaining all necessary Whitecap shareholder and Midway shareholder and warrant holder approvals and the approvals of regulatory authorities, including the TSX.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Whitecap can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide shareholders with a more complete perspective on Whitecap's future operations and such information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect our operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

These forward-looking statements are made as of the date of this press release and Whitecap disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

### **Non-GAAP measures**

This document contains the terms "cash flow" 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 cash flow 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. Cash flow 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. Cash flows 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 cash flow per share using the same method and shares outstanding that are used in the

determination of earnings per share.

Note: "Boe" means barrel of oil equivalent on the basis of 6 mcf of natural gas to 1 bbl of oil. Boe's may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

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