

MESSAGE TO OUR SHAREHOLDERS

The end of 2012 marks the first year-end for SilverWillow Energy as an emerging, pure play oil sands exploration and development company. We commenced operations on April 5th 2012 with a listing on the TSX Venture Exchange and have made good progress in executing the plans and strategies communicated to our shareholders at the time of our formation. We continue to experience an extended period of economic uncertainty and constrained market valuations in the energy sector but recognize that it is important for us to maintain our focus on creating value through execution of our development plans. As the US and global economies continue to slowly improve, we anticipate that investor interest will return to the junior energy sector.

During the past quarter we maintained our focus on our major asset, the Audet Lands, and were pleased to announce an almost 10% increase in our discovered resources from 1.69 billion barrels to 1.85 billion barrels of discovered petroleum initially-in-place. Our independent resource evaluator, Sproule Unconventional Limited, designated 68 million barrels of the discovered resources as Contingent Resources (best estimate). This initial recognition of contingent resources is an important step in receiving independent validation of the technical merits of the Audet project. We will continue our work on the engineering of a 12,000 barrel per day steam assisted gravity drainage commercial facility designed to produce about 120 million barrels of bitumen over its life. Management believes that there is potential to produce significantly more bitumen from the Audet Lands but our near-term focus will be on the initial 12,000 barrel per day operation.

During the first quarter of 2013 we went back to the field to gather more geological and geo-mechanical data at the Audet site and commenced gathering baseline environmental data. All of these activities are in support of our preparation of a regulatory application for the Audet project which we intend to submit to regulators in the fall of this year.

On our 100% working interest Birch Mountains Lands, we completed a 2D seismic program in the first quarter of 2013 and expect data analysis to be completed by the middle of this year. The primary objective of the seismic program is to identify prospective exploration drilling locations that could lead to further project opportunities.

We continue to evaluate new opportunities in the oil sands sector where our core skills in exploration and initial project development can be applied but, as yet, have not found suitable opportunities to pursue. As contemplated, we are paying close attention to expenditures and are ensuring that our administrative costs are appropriate for a company of our size.

We will stay focused on the exploration and development activities that we think will ultimately create long-term value for our shareholders as we advance our projects towards commercialization. We appreciate the support of our long term shareholders and welcome new shareholders who are recognizing the value creation opportunity in our company.

A handwritten signature in black ink, appearing to read "H. Lutley", with a stylized flourish underneath.

Howard Lutley
President and Chief Executive Officer
Calgary, Alberta, Canada
April 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at April 17, 2013

This management's discussion and analysis ("MD&A") of SilverWillow Energy Corporation ("SilverWillow" or the "Corporation") should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as of December 31, 2012 and for the period from incorporation on January 5, 2012 to December 31, 2012. All dollar amounts are in Canadian dollars unless otherwise noted. For additional information concerning SilverWillow, readers are advised to refer to SilverWillow's Annual Information Form ("AIF") for the period from incorporation, on January 5, 2012 to December 31, 2012, filed under SilverWillow's profile on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION ADVISORY

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable Canadian securities laws (collectively, "forward-looking information"). This forward-looking information is subject to certain risks and uncertainties that could cause actual results to differ materially from those included in such forward-looking information. The words "believe", "expect", "indicate", "intend", "estimate", "anticipate", "project", "scheduled" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" "may" and "could" often identify forward-looking information. This information is only a prediction. Actual events or results may differ materially from the events and results expressed in the forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third-party industry sources. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific that contribute to the possibility that the predictions, forecasts, projections and other forward-looking information will not occur.

Specific forward-looking information contained in this MD&A includes, among others, statements regarding: activities, events or developments that SilverWillow expects or anticipates will or may occur in the future, including assessments of future plans and operations; financial information; financial indemnifications; business plans and plans for the exploration, delineation and development of the Corporation's assets; the Audet Lands (as defined below) and the Birch Mountain Lands (as defined below); the expected costs and expenditures associated with exploration, delineation and development of the Corporation's assets; timing and sources of financing and further capital requirements; estimated taxes; the timing of commencement of operations and the level of production anticipated; the operation of facilities; production methods; estimated general financial performance in future periods; the timing of filing regulatory applications; resource estimates; expectations regarding the development and production potential of the Corporation's properties including through the use of emerging technologies; the timing of receipt of required approvals and permits from regulatory authorities; assets, liabilities, financial resources, financial position and growth prospects; cash projections and the components thereof; expectations for uses of funds; and the impact of accounting standards issued for future application on SilverWillow and its financial statements.

Statements relating to 'resources' are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

With respect to forward-looking information contained in this MD&A, the Corporation has made assumptions regarding, among other things: the expected costs to explore; future crude oil, bitumen, natural gas and diluent oil prices; the plans of counterparties; SilverWillow's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet its demands; the regulatory framework with respect to royalties, taxes, environmental matters, resource recovery and securities matters in the jurisdiction in which SilverWillow will conduct its business; SilverWillow's ability to market production of bitumen successfully to customers; the timing and progress of work relating to SilverWillow's assets;

continuity of resource between core holes; future production levels; future capital and operating expenditures; future sources of funding for the Corporation's capital and operating expenditures; future debt levels; future business plans; geological and engineering estimates; the geography of the areas in which SilverWillow will be exploring; the impact of increasing competition; SilverWillow's ability to obtain financing on acceptable terms; the risk around change to scope; and the sufficiency of budgeted capital expenditures in carrying out planned activities.

Forward-looking information is subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied in such forward-looking information. Such risks, uncertainties and factors include, among others: the early stage of development of SilverWillow's assets and the nature of the exploration and development activities on such assets; risks associated with discovered petroleum initially-in-place; difficulties attracting qualified personnel; the risk of termination or expiration of leases; relationships with counterparties; the impact of Aboriginal rights or claims; difficulties encountered during the exploration for, delineation, development and production of bitumen; costs associated with exploration for, delineation, development and production and upgrading bitumen; the impact of competition; the need to obtain required approvals and permits from regulatory authorities; liabilities as a result of accidental damage to the environment; compliance with and liabilities under environmental laws and regulations; the volatility of crude oil and natural gas prices and of the differential between heavy and light crude oil prices; the risks associated with exploring for, developing and producing bitumen; changes in the foreign exchange rate amount between the Canadian dollar, the U.S. dollar and the euro; difficulties encountered in delivering bitumen to commercial markets; the risk that SilverWillow is unable to sufficiently protect its proprietary technology or may be subject to technology infringement claims from third parties; general economic conditions in Canada, the United States, and global markets; failure to obtain industry partners and other third-party consents and approvals when required; royalties payable in respect of SilverWillow's production; the impact of amendments to the Income Tax Act (Canada) on SilverWillow; risks of third parties claiming or exercising pre-emptive rights; changes in or the introduction of new government regulations, and in particular related to carbon dioxide relating to SilverWillow's business; uncertainty surrounding the ability to attract capital for both debt and equity when necessary; SilverWillow's financial statements have been prepared on a going concern basis noting the Corporation's cash and cash equivalents at December 31, 2013 are likely not sufficient to fund its operating and investing activities significantly beyond 2013 and until such time that the Corporation is successful in securing financing, there is a material uncertainty that may cast significant doubt as to the ability of the Corporation to continue as a going concern; and circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change assumptions, estimates or expectations of information provided.

Management has included the above summary in order to provide readers with a more complete perspective. Actual results, performance or achievements 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, the benefits that SilverWillow will derive there from. All of the forward-looking information contained in this MD&A is qualified by these cautionary statements. SilverWillow undertakes no obligation to publicly update or revise any forward-looking information to reflect new information, subsequent events or otherwise, unless so required by applicable securities laws.

INTRODUCTION AND OVERVIEW

SilverWillow is a pre-production oil sands company focused on the exploration for, and the development of opportunities within the oil sands and heavy oil industry.

SilverWillow began operations on April 4, 2012 as a newly formed oil sands exploration and development company with assets in Alberta's Athabasca Oil Sands Area. The Corporation was formed in connection with a plan of arrangement (the "Arrangement") involving SilverBirch Energy Corporation ("SilverBirch"), Teck Resources Limited ("Teck"), 8071667 Canada Inc. (the "Purchaser") and SilverWillow. The Arrangement involved the acquisition by the Purchaser (a wholly owned subsidiary of Teck) of all of

SilverBirch's outstanding shares, other than those held by Teck. Pursuant to the Arrangement, the holders of common shares of SilverBirch ("SilverBirch Shares") received, for each SilverBirch Share held, cash consideration of \$8.50 per share and one common share of SilverWillow (a "SilverWillow Share"). SilverWillow was incorporated for the sole purpose of participating in the Arrangement and did not carry on any active business prior to the closing of the Arrangement. At the close of the Arrangement, 53,480,031 SilverWillow shares were issued to holders of SilverBirch shares ("SilverBirch Shareholders").

The Arrangement resulted in SilverWillow receiving a portfolio of oil sands leases comprised of 100% working-interest in 174,720 acres in the Athabasca Oil Sands Area of northeastern Alberta. These leases include leases 418 and 271 (the "Audet Lands"), covering 23,040 acres of undeveloped lands which have discovered petroleum initially-in-place ("DPIIP") of 1.85 billion barrels, of which 68 million barrels are classified as best estimate contingent resources. The Audet lands are, located 110 kilometres northeast of Fort McMurray, and are approximately 30 kilometres north and north-east of Cenovus Energy Inc.'s ("Cenovus") proposed Telephone Lake project and Suncor Energy Inc.'s ("Suncor") Firebag project respectively. In addition, SilverWillow holds 94,080 net acres of exploration lands in the Birch Mountains area ("Birch Mountain Lands") on the west side of the Athabasca River, and 57,600 net acres of other exploration lands ("Other Exploration Lands") on the east side of the Athabasca River (see "*Oil Sands Lease Holdings*").

During 2012 the following activities were completed:

Following the announcement of the Arrangement and the formation of SilverWillow in early January, our efforts were focused on completing a smooth transition and ensuring that the business systems and appropriate staffing levels were in place. During this transition, we successfully completed a second program of exploration drilling and testing on the Audet Lands in early 2012. SilverWillow commenced operations and began trading on the TSX Venture the first week of April, having received overwhelming support from SilverBirch shareholders to finalize the Arrangement.

In the second quarter of 2012, we commenced the technical work evaluating results from the winter field program. To this end, SilverWillow engaged geo-mechanical engineering and reservoir engineering consultants to assist the Corporation in the assessment of the Audet Lands for the production of bitumen by steam assisted gravity drainage ("SAGD") methods. This included analysis and evaluation of core samples taken from the mudstone caprock interval and the overburden for geomechanical properties. Using the data from the geomechanical program and results from mini-frac tests, reservoir and geomechanical simulation studies for a SAGD project were commenced. The objective of these studies was to determine a suitable operating pressure, demonstrate caprock integrity and assess the production potential from a SAGD operation.

In the third quarter of 2012, these studies were well advanced and identified the requirement for additional geomechanical and reservoir data. As a result, SilverWillow initiated planning for a supplemental winter field program on the Audet Lands for the first quarter of 2013. Also in the third quarter, SilverWillow engaged engineering and project management consultants to prepare a Class IV preliminary engineering design and cost estimates for production facilities and infrastructure for the first phase of the Audet Lands SAGD project. In addition, a regulatory and environment consultant was also retained to conduct the environmental assessment and prepare a regulatory application for this first phase. Towards the end of the third quarter, we announced a private placement flow-through common share offering for gross proceeds of \$4.0 million to provide funding flexibility for our exploration activities. The transaction closed October 18, 2012.

Following substantial completion of the geomechanical and reservoir engineering work on the Audet Lands in the fourth quarter of 2012, the results indicated that the reservoir and caprock properties will allow production by SAGD methods at appropriate pressures without compromising the integrity of the caprock. Furthermore, these studies were reviewed as part of an independent resource evaluation, and SilverWillow was able to confirm the feasibility of applying SAGD technology to a commercial project. This evaluation also increased the Audet Land's DPIIP from 1.69 billion barrels to 1.85 billion barrels, of which 68 million barrels were assigned as best estimate contingent bitumen resources.

Also in the fourth quarter of 2012 and leading into 2013, to support the Audet Lands regulatory application, reservoir and well completions engineers/consultants provided simulations of well performance to assist in facilities design. Further, we initiated environmental and regulatory processes for the Audet Lands project with regulatory agencies.

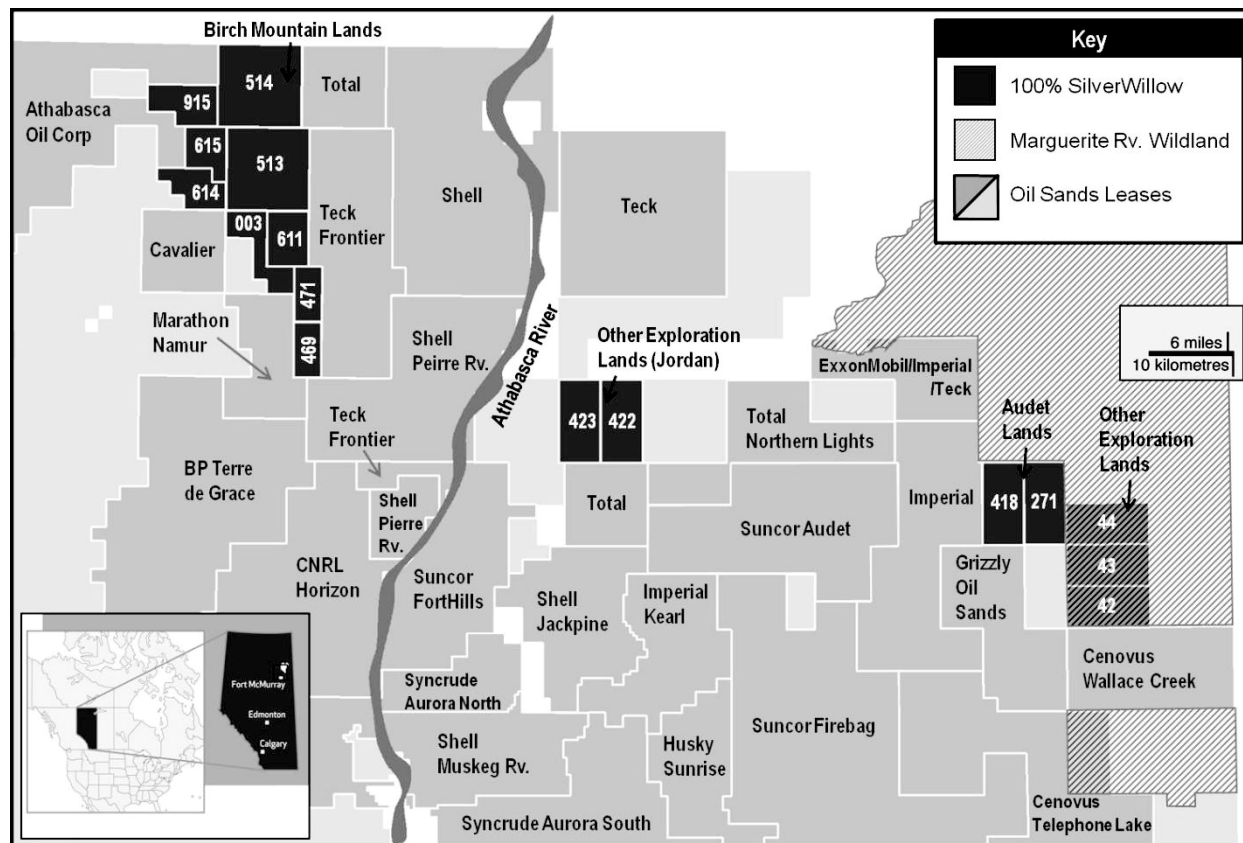
Additional studies will be undertaken to properly assess the spatial extent of the caprock properties and the requirement for pilot testing to demonstrate the integrity of the caprock under operating conditions. SilverWillow has acquired additional caprock data in its 2013 exploration program and is in the process of determining the cost of a small steam containment pilot test for the Audet Lands. This will provide important field data regarding performance of the caprock, and will assist in the design of SilverWillow's proposed 12,000 barrel per day SAGD development project.

Similarly, we have advanced preliminary technical studies on the promising Birch Mountain Lands throughout 2012. This culminated with the completion of a 2D seismic program on a prospective area at the end of the first quarter of 2013. The data obtained through this program will be analyzed over the coming quarters with results expected by the end of the summer.

For 2013, SilverWillow intends to continue to focus on activities related to progressing its Audet Lands towards commercial production through the preparation of a design basis memorandum ("DBM") for a bitumen production facility, and preparation and submission of a regulatory application. With respect to the Birch Mountain Lands we plan to conduct an exploration drilling program in early 2014, contingent upon results from the seismic program. In addition to working on our current properties, we will continue to consider additional strategic opportunities in the oil sands and heavy oil industry that we believe will yield value to shareholders.

OIL SANDS LEASE HOLDINGS

SilverWillow currently holds 174,720 net acres of oil sand leases. The following map depicts the location of these oil sands leases.



Oil Sand Leases	Total Acreage
Audet Lands	23,040
Birch Mountain Lands	94,080
Other Exploration Lands	57,600
Total Leases	174,720

SILVERWILLOW'S RESOURCE BASE

Sproule Unconventional Limited ("Sproule") prepared an independent evaluation of the discovered petroleum and the contingent bitumen resources for the Corporation's oil sands leases in the Audet Lands of Northeast Alberta (the "Sproule Audet Report") as of December 31, 2012. As a result of this assessment, Sproule has estimated the DPIIP to be 1,845.9 million barrels. In addition, Sproule classified 68.4 million barrels of the above discovered resource as best estimate contingent resources. SilverWillow is currently engaged in the engineering design of a pilot and a commercial project. It is, therefore, premature to evaluate the economic viability of the project at this time. Consequently, Sproule assigned an economic status of "undetermined" to the contingent resources assigned to the Corporation's Audet Lands. The Sproule Audet Report, effective December 31, 2012, is based on results of the 2011 and 2012 winter drilling programs and was prepared in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and the Canadian Oil and Gas Evaluation

Handbook (the “COGE Handbook”) as published by the Society of Petroleum Evaluation Engineers (Calgary Chapter).

SilverWillow Energy Corporation Contingent Bitumen Resources¹ as of December 31, 2012

	Developable-Original- Bitumen-In-Place (MMbbl)	Recoverable-Bitumen- In-Place (MMbbl)	Recovery Factor (%)
Low Estimate	58.1	29.0	49.9
Best Estimate	123.6	68.4	55.3
High Estimate	311.5	173.9	55.8

¹The term “contingent resources” is taken from the COGE Handbook. The volumes listed in the chart above entitled, “Contingent Bitumen Resources” refer to potentially recoverable volumes of bitumen resources. The volumes of contingent bitumen resources in the above chart are presented in millions of barrels at stock tank conditions. There is no certainty that it will be commercially viable to produce any portion of the contingent bitumen resources.

The preparation and disclosure of the reported resource estimates are the responsibility of SilverWillow’s management and require approval by the Corporation’s Reserves and Health, Safety & Environment Committee and Board of Directors. Sproule’s responsibility is to express an opinion on the discovered petroleum initially-in-place and on the contingent resources data based on the evaluations and review. Sproule carried out the evaluations and review in accordance with standards established by NI 51-101 which require that the resource estimates be prepared in accordance with the COGE Handbook.

Discovered Petroleum Initially-In-Place (equivalent to Discovered Resources) is defined in the COGE Handbook as that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves, and contingent resources; the remainder is unrecoverable.

Contingent Resources are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as “contingent resources” the estimated discovered recoverable quantities associated with a project in the early project stage.

With respect to the contingent resources associated with SilverWillow’s Audet Lands, the contingencies which prevent the classification of these resources as reserves are: the need for a pilot to verify the effectiveness of the McMurray Formation shales as caprock for steam containment during the SAGD operation; the absence of regulatory approvals for future commercial development; the absence of a firm commercial development plan; and the uncertainty of funding approval for commercial developments. These contingencies may not be resolved in the manner or on the timeline anticipated or at all.

Discovered resources and contingent resources do not constitute, and should not be confused with, reserves. There is no certainty that it will be commercially viable to produce any portion of the discovered resources or of the contingent resources on any of the above mentioned properties.

AUDET LANDS

2011

In early 2011, a preliminary exploration drilling program was conducted on SilverWillow’s two oil sands leases, 418 and 271, known as the Audet Lands. The Audet Lands, which cover 23,040 acres of undeveloped lands in the Athabasca Oil Sands Area, are owned 100% by SilverWillow and are located

110 kilometres northeast of Fort McMurray, and are approximately 30 kilometres north and north-east of Cenovus' proposed Telephone Lake project and Suncor's Firebag project, respectively.

A total of 34 core holes were drilled to evaluate the reservoir quality and bitumen characteristics, to define the extent of the bitumen resource and to provide an initial indication of the caprock extent and integrity for assessment of potential recovery processes. An initial review of the results from the drilling program, and subsequent detailed laboratory analyses of the core samples recovered, indicated that the oil sands deposit on the Audet Lands is of very high quality. Results from all core samples exhibiting a minimum six mass percent bitumen showed an average porosity of 35%, an average bitumen saturation of 81%, and excellent permeabilities.

Based on this significant discovery, Sproule was engaged to provide a technical assessment of the original bitumen-in-place volumes in the Audet Lands.

2012

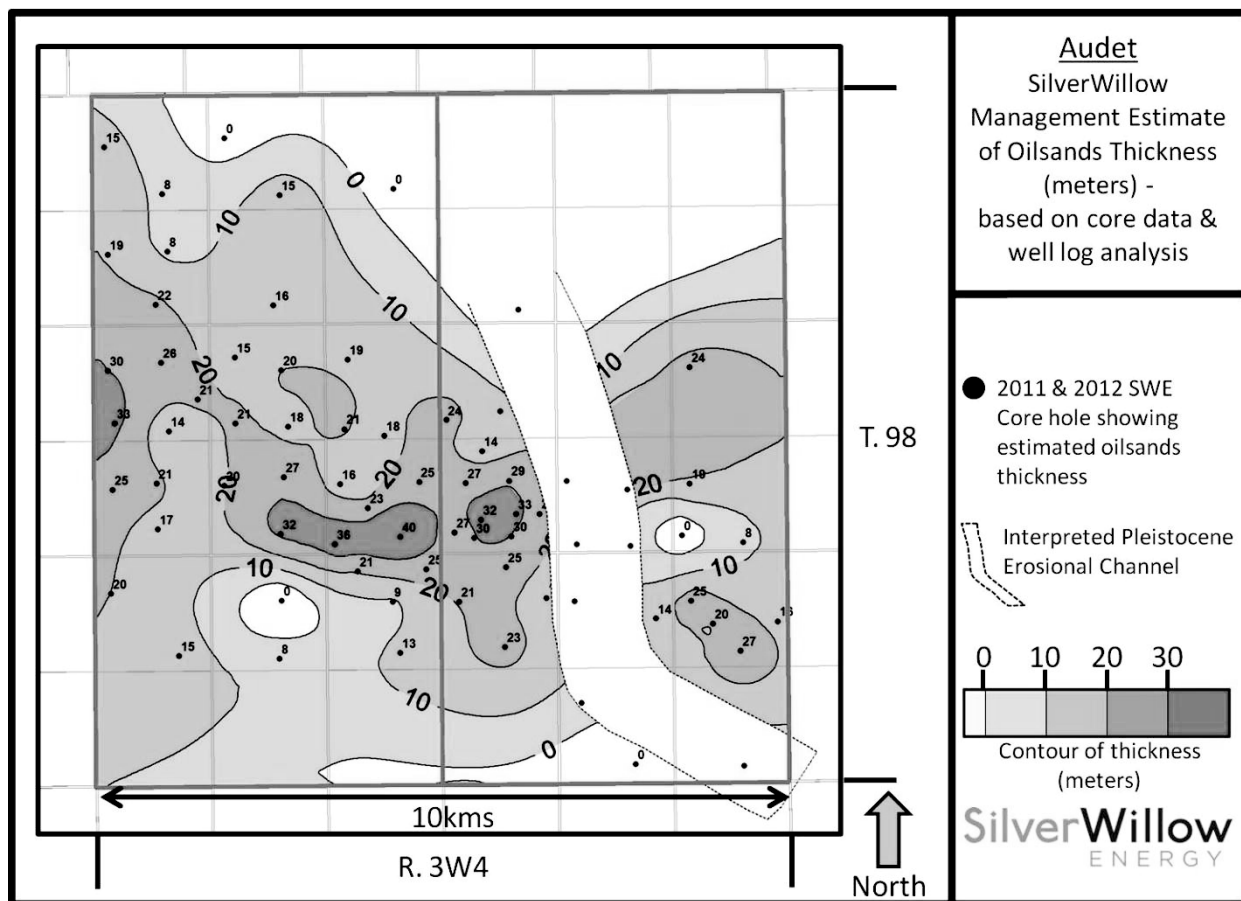
Building on the success of the 2011 program, a second winter field program was undertaken during the first quarter of 2012. This program comprised further resource delineation drilling; additional caprock evaluation, including mini-frac tests; hydrogeological evaluation and flow testing; and a 2D seismic acquisition program. This field program was designed to address technical considerations to determine the development potential of the leases. All components of the program were successfully completed. The following map provides further details of the results from the Audet resource drilling programs.

During 2012, SilverWillow also engaged geo-mechanical engineering and reservoir engineering consultants to assist the Corporation in the assessment of the Audet Lands for the production of bitumen by SAGD methods. The results of the technical work by the consultants indicate that the reservoir and caprock properties will allow production by SAGD methods at appropriate pressures without compromising the integrity of the caprock. Additional studies will be undertaken to properly assess the spatial extent of the caprock properties and the requirement for a small-scale pilot test to demonstrate steam containment under operating conditions.

During the third quarter of 2012 SilverWillow initiated planning of a supplementary winter field program on its Audet Lands. The program scope included the drilling of approximately ten core holes for exploration and delineation purposes. Construction of winter access to the Audet site commenced in mid- December 2012 with drilling of the first core hole in early February 2013. The program was completed by the end of March. SilverWillow acquired additional caprock data during the 2013 exploration program and is in the process of determining the cost of a small steam containment pilot test for the Audet Lands. This will provide important field data regarding performance of the caprock, and will assist in the design of SilverWillow's proposed 12,000 barrel per day SAGD development project.

SilverWillow is presently preparing a regulatory application for the 12,000 barrel per day production facility at the Audet Lands for submission in the second half of 2013. Engineering and regulatory consultants have been retained and are in the process of preparing a preliminary engineering design and cost estimate for the production facilities and infrastructure, wells and well pads, and to conduct an environmental assessment for the regulatory application. Assuming typical timelines for regulatory approval and facilities construction, it is anticipated that first oil from a SAGD project will be produced in late 2016 or early 2017.

Contour Map Showing Estimate of Oil Sands Thickness Based on Core Data and Well Log Analysis



BIRCH MOUNTAIN LANDS

The Birch Mountain Lands are comprised of nine leases, leases 03, 469, 471, 513, 514, 611, 614, 615 and 915, that were acquired at Crown land sales over a two-year period between September 2006 and November 2008 by UTS Energy Corporation (“UTS”) and Teck. UTS transferred its 50% ownership to SilverBirch Energy as a result of the plan of arrangement between UTS, Total E&P Canada Ltd. and SilverBirch. The leases were subsequently completely transferred to SilverWillow as a result of the Arrangement, resulting in 100% ownership by SilverWillow. The Birch Mountain Lands comprise 94,080 acres and are immediately west of Teck’s Frontier Oil Sands Mining Project.

During the 2006/2007 and 2007/2008 winter seasons, a total of 25 oil sands evaluation core holes were drilled on the Birch Mountain Lands. Of these, 18 core holes were shallow evaluation holes which were drilled in the lower elevation sections of the leases, within the Athabasca River valley. Sixteen of the 18 shallow core holes encountered oil sands, and seven of these encountered oil sands with thicknesses between 10m and 25m and within a depth interval of 35m to 200m below surface. The oil sands occur in both the Wabiskaw and McMurray formations, and are not continuous intervals. Additional exploration drilling and evaluation will be required to determine the extent of the resource and potential recovery methods.

In early 2008, a preliminary exploration program on the higher elevations of the Birch Mountain Lands was conducted. This program consisted of field acquisition of approximately 100 kilometres of 2D seismic

data and the drilling of a total of seven core holes on leases 471, 513, 614, 615, and 915. Based on core analysis, all seven of these core holes encountered oil sands with gross thickness ranging from six metres to 30 metres. However, current well control is very sparse and additional exploration programs, comprising both seismic and drilling, will be required to identify prospective areas with sufficient in-place bitumen volumes and reservoir continuity and quality, necessary for in situ production potential.

Bitumen resources in the Birch Mountain area are contained within the Lower Cretaceous McMurray Formation and the overlying Wabiskaw Member of the Clearwater Formation. The depth to the Wabiskaw and McMurray Formation oil sands in the area varies from 150 metres in the Athabasca River Valley in the east to 550 metres on the top of the Birch Mountain area in the west. The nearest producing in situ development project to the Birch Mountain Lands is Suncor's MacKay River project, which is located approximately 85 kilometres south of the Birch Mountain Lands and which uses SAGD to produce from the McMurray Formation.

Since 2008, no additional exploration activity has been carried out on the Birch Mountain Lands, which are at an early stage of evaluation. At this time, no resource estimates have been attributed to this property.

In the second quarter of 2012, SilverWillow completed a desktop geological study of the Birch Mountain area in order to identify locations for a 2D seismic program. The data from the program will provide the information required to design a future oil sands exploration drilling program. Planning for the seismic program was completed in late 2012 and field work commenced in January 2013. SilverWillow completed the field component of the program in the first quarter of 2013, with results from interpretation of the data expected in the third quarter of 2013. Based upon these results, we plan to conduct an exploration drilling program on these lands in early 2014.

OTHER EXPLORATION LANDS

In addition to the leases relating to the Audet Lands and the Birch Mountain Lands, SilverWillow holds 57,600 net acres of additional exploration land with a 100 percent working interest in each lease.

Leases 042, 043 and 044, each comprising 11,520 acres, were purchased at a Crown land sale in March 2011. These leases form a contiguous block, with lease 044 located immediately east of, and adjacent to, lease 271 of the Audet Lands and, therefore, these lands have resource potential; however, surface access is not currently permitted as they are located in a wildland park, and there can be no certainty that access will be permitted in the future. There are five legacy wells that were completed on these lands in the 1970's with three of the wells indicating oil sands thickness equal to or greater than twenty meters.

Leases 422 and 423, collectively the Jordan Lands, each comprising 11,520 acres, were purchased at a Crown land sale in December, 2006. Eight core holes were drilled on the Jordan Lands during the 2006/2007 and the 2008/2009 winter seasons to provide an initial evaluation of the resource potential. Of the eight core holes drilled, one encountered oil sands, with a thickness of 30 metres and at a depth of 45 metres. Additional exploration drilling and evaluation will be required to determine the extent of the resource and potential recovery methods. At this time, no resource estimates have been attributed to this property.

DELINEATION AND EXPLORATION DRILLING PROGRAM UPDATE

The following table represents the core holes drilled on SilverWillow's leased lands to date:

Oil Sands Leases	Total Core Holes Drilled¹
Audet Lands	72
Birch Mountain Lands	25
Other Exploration Lands	8
Total	105

Note:

1. The numbers in this table represent only resource core holes drilled since 2006 by UTS and SilverBirch.

SELECTED FINANCIAL INFORMATION

Selected Quarterly Financial Information of the Corporation is shown below.

(Stated in thousands of dollars except for per share amounts)	Quarter Ended December 31, 2012	Quarter Ended September 30, 2012	Quarter Ended June 30, 2012
Finance Income ¹	\$ 90	\$ 72	\$ 64
Earnings (loss)			
Net Loss			
Total	(486)	(822)	(870)
Per share basis	(0.01)	(0.02)	(0.02)
Diluted per share basis	(0.01)	(0.02)	(0.02)

Note:

1. Reflects interest income. SilverWillow does not have any production revenue.

CURRENT OPERATIONS

SilverWillow's main activities are the evaluation and development of its extensive oil sands leases. SilverWillow was incorporated on January 5, 2012 and commenced operations on April 4, 2012 with the closing of the Arrangement with Teck and SilverBirch, which resulted in the transfer of certain oil sands assets and working capital from SilverBirch into SilverWillow. Therefore there are no comparative figures to report for the period of incorporation to December 31, 2012. SilverWillow does not currently have any production revenue, as none of its properties are producing.

SilverWillow's net losses for the three months ended December 31, 2012 and for the period April 4, 2012 to December 31, 2012 were \$486,000 or \$0.01 per share and \$2,178,000 or \$0.05 per share, respectively. Significant items included in the determination of the net loss are described below.

General and administrative expenses ("G&A") pertain to the Corporation's corporate expense comprising primarily labour and corporate office costs. G&A expensed during the three months ended December 31, 2012 and the period of April 4, 2012 to December 31, 2012 totalled \$975,000 and \$2,739,000, respectively. Stock based compensation included in the G&A which has been expensed totalled \$233,000 for the three months ended December 31, 2012 and \$663,000 for the period of April 4, 2012 to December 31, 2012. Therefore, cash G&A expensed totalled \$742,000 for the three months ended December 31, 2012 and \$2,076,000 for the period of April 4, 2012 to December 31, 2012.

G&A which is directly attributable to exploration and development activities is capitalized to exploration and evaluation assets ("E&E") or to property and equipment ("P&E"). The total amount of G&A

capitalized to E&E assets during the three months ended December 31, 2012 totalled \$436,000, including share-based payments capitalized of \$111,000 and totalled \$1,179,000, including share-based payments capitalized of \$302,000 for the period of April 4, 2012 to December 31, 2012.

G&A (Stated in thousands of dollars)	Three months ended December 31, 2012	April 4, 2012 to December 31, 2012
Total G&A	\$1,411	\$3,918
Total G&A expensed	\$ 975	\$2,739
Share-based payments expensed	233	663
Cash G&A expensed	\$ 742	\$2,076
Total G&A capitalized to E&E assets	\$ 436	\$1,179
Share-based payments capitalized	111	\$ 302
Cash G&A capitalized	\$ 325	\$ 877

Income of \$90,000 and \$226,000 for the three months ended December 31, 2012 and for the period of April 4th, 2012 to December 31, 2012, respectively, comprised interest earned on its cash and cash equivalents and translates to a return of approximately 1.2% per annum. SilverWillow's cash investment policy and guidelines remain conservative, emphasizing security and liquidity of assets over investment yield.

Depreciation expense of \$26,000 for the three months ended December 31, 2012 and \$90,000 for the period of April 4, 2012 to December 31, 2012 relates to the Corporation's office assets and does not include any charges relating to its oil sands assets, which are not yet in production.

CAPITAL INVESTMENT

The following table summarizes the capital expenditures made by the Corporation for the three months ended December 31, 2012 and for the period of April 4, 2012 to December 31, 2012. Since the incorporation date of the Corporation was January 5, 2012 and the Corporation held no assets other than \$1 in cash at March 31, 2012, there are no comparative figures as the Corporation was formed on April 4, 2012.

Capital Expenditures (Stated in thousands of dollars)	Three Months ended December 31, 2012	April 4, 2012 to December 31, 2012
Exploration and Evaluation Assets:		
Exploration and evaluation costs	\$1,649	\$3,097
Capitalized cash G&A	325	877
Capitalized share-based payments	111	302
	2,085	4,276
Property and Equipment:		
Corporate furnishing and equipment	105	149
Total	\$2,190	\$4,425

Exploration and evaluation expenditures on the Corporation's oil sands leases include approximately \$3.6 million and \$0.6 million spent on activities relating to the Audet and Birch Mountain Lands, respectively. The activities undertaken relating the Audet exploration program and Birch Mountain Lands have been described previously in this MD&A.

PLAN OF ARRANGEMENT

As noted above, at March 31, 2012, apart from the \$1 cash received for the share issued at the time of incorporation, SilverWillow had no other assets. On April 4, 2012, upon completion of the Arrangement, certain assets and liabilities were transferred to SilverWillow from SilverBirch. Since shareholders of SilverWillow ("SilverWillow Shareholders") initially held the same pro rata portions of the former SilverBirch Shares and SilverWillow Shares, the assets and liabilities transferred to SilverWillow from SilverBirch have been accounted for on a "continuity of interests" basis and recorded by SilverWillow at the carrying amounts recorded in the SilverBirch balance sheet at the time of transfer. Carrying values of the assets and liabilities transferred to SilverWillow under the Arrangement are as follows:

Assets (stated in thousands of dollars)	
Cash	\$ 25,735
Accounts receivable and other	2,121
Prepaid	203
Exploration and evaluation assets	94,786
Property, plant and equipment	212
Total assets	\$123,057
Liabilities:	
Accrued liabilities	\$ 754
Total liabilities	\$ 754
Total net assets	\$122,303

At the close of the Arrangement, the total net asset value transferred to SilverWillow was ascribed to the share capital of the Corporation. At closing, 53,480,031 SilverWillow Shares were issued to SilverBirch Shareholders.

Property, plant and equipment comprise the net book value of office furnishings, computer hardware and software, totalling \$212,000 and exploration and evaluation assets comprise costs incurred to date on the acquisition and development of the oil sands leases described in "Oil Sands Lease Holdings" section of this MD&A, totalling \$94,786,000. A number of former SilverBirch staff have been hired by SilverWillow and SilverWillow will continue with the exploration and development of these properties as described previously in the MD&A.

Certain indemnities have been granted by SilverWillow to SilverBirch under the terms of the Arrangement, including: (i) indemnification for pre-closing taxes of SilverBirch, for which any potential liability to SilverWillow is remote, based on the post-closing trading of SilverWillow shares; (ii) assumption of the indemnification granted by SilverBirch to UTS as part of the plan of arrangement between SilverBirch, UTS and Total E&P Canada Ltd., completed on October 1, 2010, regarding the availability of certain tax pools to UTS for taxation years ended on or prior to the effective date of that arrangement, the maximum exposure for which is estimated at \$3 million; and (iii) certain other indemnities relating to possible claims regarding the assets spun out by SilverBirch to SilverWillow. Management believes that any claims under these indemnities is unlikely.

OUTSTANDING SHARE DATA

The following shares were outstanding at December 31, 2012 and April 17, 2013.

(\$ thousands, except share amounts)	Number of Shares	Consideration
Outstanding, December 31, 2012 and April 17, 2013	56,680,031	\$125,419

The following equity awards, entitling the holders to acquire common shares of the Corporation, were outstanding at April 17, 2013:

	Exercise Price	Weighted Average Exercise Price	Number Outstanding	Number Exercisable
Incentive Stock Options	\$0.77 - \$1.20	\$1.11	4,957,000	0

ACCOUNTING STANDARDS ISSUED FOR FUTURE APPLICATION

Management is assessing the impact of these new standards and amendments but they are not expected to have a material impact on the Corporation's financial statements.

In November 2009, IFRS 9 Financial Instruments was issued effective for periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard applies to the classification and measurement of financial assets. Further revisions to this standard are expected to address classification and measurement of financial liabilities, hedge accounting and derecognition. IFRS 9 is not effective until January 1, 2015.

In May 2011, IFRS 13 Fair Value Measurement was issued and is mandatory for periods beginning on or after January 1, 2013 with optional application to 2012 comparative figures. The standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard is a comprehensive standard intended for use across all IFRS standards which call for fair value measurement

In June 2011, IAS 19 Employee Benefits was amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance disclosure of employee benefits. The Corporation does not have any defined benefit pension plans and this standard is not therefore expected to impact the Corporation's financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and use judgement regarding the reported amounts and presentation of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and disclosure of revenues and expenses during the applicable reporting period. Such estimates relate primarily to unsettled transactions and events at the reporting date. Actual results ultimately may differ from these judgements and estimates.

Exploration & Evaluation Assets and Property and Equipment

At each reporting date, estimates of costs incurred to date must be made with respect to the Corporation's activities. These estimates affect the accrued liabilities recognized at the end of each reporting period.

Amounts recorded for depreciation of P&E are based on management's best estimates of their useful lives and are therefore subject to measurement uncertainty.

Amounts estimated for decommissioning are based on management's best estimates of expenditures required to settle said obligations as well as to the scheduling of the expenditures and discount rate changes and therefore, these amounts are subject to measurement uncertainty.

Impairment

Each reporting period the Corporation assesses whether or not impairment indicators exist which would indicate that the carrying values of the assets may not be recoverable. If such indicators exist, an impairment test would be required. Assumptions and judgements are used in performing this assessment.

An impairment test requires comparing the Cash Generating Units (“CGU”) or asset’s carrying value to the higher of its fair value less costs to sell and its value in use. A CGU is defined as the smallest group of assets generating cash flow independently from other assets. The calculation of fair value less costs to sell requires estimation of the price a CGU or asset would attract if sold less the costs to sell it. The calculation of value in use requires assumptions and estimates to be made regarding the future cash flows from the CGU or asset, which could include capital costs, operating costs, future commodity prices, inflation, discount rates and production profiles.

Share-Based Payments

The valuation of share-based payments using the Black-Scholes option valuation model requires a number of input values, including an estimate of the volatility of the Corporation’s shares over the expected life of the option, the expected life of the option, risk-free interest rates and forfeiture rates. By their nature, these estimates are subject to measurement uncertainty and they may not be indicative of future performance.

Going Concern Assessment

The forecasting of future cash requirements and assessment of the Corporation’s ability to secure funding for those cash requirements involves estimates, assumptions and judgements to be made regarding the quantification and scheduling of expenditures and the availability of funding in the marketplace, whether the funding be via equity issuances, debt, sale of assets or partnering with third parties.

LIQUIDITY AND CAPITAL RESOURCES

In December, 2012, the SilverWillow Board of Directors approved 2013 budget expenditures of \$23.8 million, with the main expenditure areas comprising the Audet Lands in the amount of \$13.0 million, \$5.1 million relating to the Birch Mountain Land’s seismic program, and \$4.6 million in SilverWillow G&A.

As of April 17, 2013, SilverWillow has approximately \$15 million in available cash and cash equivalents, sufficient to fund 2013 estimated cash expenditures approved and planned to date, including the ongoing capital and general and administrative expenditures until the end of 2013. SilverWillow has committed expenditures of \$10.9 million related to operations and \$0.4 million related to office leases, of which approximately \$7.5 million has been spent as of April 17, 2013.

The Corporation’s cash and cash equivalents at December 31, 2012 are likely not sufficient to fund its operating and investing activities significantly beyond 2013.

The Corporation currently earns no operating revenue; as such the Corporation will be dependent on equity issuances, debt financing, asset dispositions or entrance into joint arrangements to fund further activities. Based on the Corporation’s discovered petroleum initially-in-place and contingent bitumen resources already established for the Audet Lands and significant other exploration land holdings, the Corporation expects to be able to raise additional financing to fund further expenditures. However, the Corporation can provide no assurance that such access to additional financing will be possible, or under what terms it could be raised. Until such time that the Corporation is successful in securing financing, there is a material uncertainty that may cast significant doubt as to the ability of the Corporation to continue as a going concern.

With respect to SilverWillow’s cash and cash equivalents, the Corporation has implemented a conservative investment policy which is geared to liquidity and protection of its investment portfolio. Current investments comprise bankers’ acceptances and deposits.

CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the acquisition, exploration and development of its oil sands properties or potential other business and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Corporation considers the items included in shareholders' equity as capital. Capital managed as at December 31, 2012 is as follows:

(Stated in thousands of dollars)	December 31, 2012
Shareholders' Equity	\$125,419
Capital Managed	\$125,419

The Corporation manages its capital structure and makes adjustments in light of changes in economic conditions and risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares or bonds, acquire or dispose of assets, obtain bank debt, or enter into joint exploration and development arrangements with other parties. To facilitate the management of its capital requirements, the Corporation prepares annual expenditure budgets that are updated as necessary and which are approved by the Board of Directors. Longer term financial models are also utilized to schedule and forecast anticipated cash requirements. Excess cash is invested in accordance with an investment policy, which is reviewed periodically, thereby ensuring that cash is invested in highly liquid short-term interest-bearing investments, possessing pre-approved risk profiles, and is available as required. There were no changes in the Corporation's approach to capital management during the period ended December 31, 2012.

FINANCIAL INSTRUMENTS

The Corporation's cash and cash equivalents and accounts receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other financial liabilities. At December 31, 2012, all of the above-noted financial instruments would be measured at amortized cost. However, the carrying value of the Corporation's cash and cash equivalents, accounts receivable and other and accounts payable and accrued liabilities approximate their fair values because of their short-term nature.

The Corporation's risk exposure associated with its financial instruments is summarized below.

(a) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations as they become due. The Corporation's financial position could be adversely affected if it failed to arrange financing for its operating and investing activities. The Corporation strives to maintain sufficient financial liquidity by forecasting cash flows for current and subsequent years to identify financing requirements on an ongoing basis. SilverWillow does not currently have any production revenue as it is a pre-production oil sands company focused on the exploration for, and the development of in situ opportunities. The Corporation's cash and cash equivalents at December 31, 2012 are likely not sufficient to fund its operating and investing activities significantly beyond 2013. Long-term liquidity risk is higher due to the foreseeable need to raise further cash to fund future operating and investing activities beyond 2013. Since the Corporation does not currently earn any operating revenue and as its properties are still in the exploration and evaluation stage, the Corporation will be dependent upon equity issuances, debt financing, asset dispositions or entrance into joint arrangements with third parties to fund future operating and investing activities.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. The Corporation's credit risk is primarily attributable to its holdings of cash equivalents, and accounts receivable.

From time to time the Corporation has accounts receivable from other third parties, due to cost sharing arrangements undertaken as part of its winter exploration drilling programs and attempts to minimize credit risk by invoicing on a timely basis over the drilling season and at its conclusion.

Cash and cash equivalents held by the Corporation are only invested with counterparties meeting credit quality requirements and issuer and concentration limits as set out in the Corporation's investment guidelines. SilverWillow's cash investment policy and guidelines are reviewed periodically and emphasize security of assets and liquidity over investment yield. Therefore, the Corporation's management believes that credit risk associated with these investments is minimal.

(c) Market Risk

The three components of market risk are interest rate risk, price risk and currency risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Corporation will realize a loss as a result of a decline in the fair value of any of its cash and cash equivalents is minimal because the Corporation's investment policy requires that cash equivalents acquired be short term in nature and investments are currently held primarily with Canadian banks.

The Corporation currently has no drawn debt or interest bearing liabilities. Interest rate risk will become more of a factor in the future if the Corporation draws on debt to fund future project expenditures.

(ii) Price risk

Since the Corporation is not yet a producing entity, commodity price risk does not impact earnings.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial instruments held by the Corporation are denominated in Canadian dollars and, as such, there is currently no currency risk associated with the financial instruments.

OUTLOOK

For 2013, SilverWillow intends to continue to focus on activities related to progressing its Audet Lands towards commercial production through the preparation of a DBM for a bitumen production facility capable of processing 12,000 barrels per day, and preparation and submission of a regulatory application in this regard. With respect to the Birch Mountain Lands we plan to conduct an exploration drilling program in early 2014, contingent upon results from the seismic program. In addition to working on our current properties, we will continue to consider additional strategic opportunities in the oil sands and heavy oil industry that we believe will yield value to shareholders.

RISK FACTORS

An investment in SilverWillow should be considered highly speculative due to the nature of its activities and the stage of its development. Investors should carefully consider the following risk factors.

The market value of SilverWillow will be largely determined by investor confidence in the potential for successful development of the Audet Lands. Any events that negatively impact further exploration activities, the delineation of a project for the Audet Lands, the development schedule or potential project economics need to be considered risk factors. These include oil prices, exploration costs, development costs, possible changes to the fiscal regime and possible changes to environmental or other relevant regulations or delays in receiving regulatory approvals and lease tenure.

Early Stage of Development and Exploration and Development Activities

The business of SilverWillow should be considered speculative due to its present stage of development. There can be no assurance that SilverWillow will be able to generate and sustain revenue or net income in the future.

SilverWillow's exploration and evaluation activities are primarily focused on undeveloped oil sands rights which have inherent risks with uncertain prospects for success. To date, the activities relating to SilverWillow's assets are exploratory only, which increases the degree of risk substantially as compared to oil sands projects in the production stage. SilverWillow will have no earnings to support it should its properties prove not to be commercially viable.

SilverWillow's exploration and possible development activities in its oil sands interests will depend in part on the evaluation of data obtained through geophysical testing and geological analysis. The results of such studies and tests are often subject to varying interpretations, and no assurance can be given that such activities will produce bitumen in commercial quantities. The exploration, evaluation and development activities that will be undertaken by SilverWillow are subject to greater risks than those normally associated with the acquisition and ownership of producing properties. SilverWillow's properties may fail to produce hydrocarbons in commercial quantities.

Oil sands exploration, development and production involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of SilverWillow depends on its ability to find, acquire, develop and commercially produce bitumen reserves.

Future oil sands exploration may involve unprofitable efforts. Environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect production. These conditions include delays in obtaining governmental approvals or consents, insufficient storage, transportation or processing capacity or other geological and mechanical conditions.

SilverWillow will be vulnerable to market prices and fixed costs, including costs associated with project development, exploration and delineation activities, operations, leases, labour costs, and depreciation which will account for a significant portion of SilverWillow's costs and expenses. If actual operating expenses are higher than estimated, SilverWillow's profit margin will be lower than expected and SilverWillow's business and results of operations may be adversely affected.

Risks Associated with Resource Estimates

The Sproule Audet Report provides an assessment of the DPIIP and the Contingent Bitumen Resources for the Audet Lands. The term "discovered petroleum initially-in-place" is taken from the COGE Handbook. The DPIIP resource volumes taken from the Sproule Audet Report refer to quantities of bitumen estimated, as of a given date, to be contained in known accumulations prior to production. The

recoverable portion of DPIIP includes production, reserves and contingent resources with the remainder being unrecoverable.

With respect to the contingent resources associated with SilverWillow's Audet Lands, the contingencies which prevent the classification of these resources as reserves are as follows: the need for a pilot to verify the effectiveness of the McMurray Formation shales as caprock for steam containment during the SAGD operation; the absence of regulatory approvals for future commercial development; the absence of a firm commercial development plan; and the uncertainty of funding approval for commercial developments. These contingencies may not be resolved in the manner or on the timeline anticipated or at all.

Discovered resources and contingent resources do not constitute, and should not be confused with, reserves. There is no certainty that it will be commercially viable to produce any portion of the discovered resources or of the contingent resources on any of the above mentioned properties.

Hydrocarbon Resources

There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond SilverWillow's control, and no assurance can be given that the indicated level of resources will be realized. In general, estimates of discovered resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates, which have inherent uncertainties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of discovered resources and the further classification of such resources based on risk of recovery prepared by different engineers or by the same engineers at different times may vary substantially.

Estimates with respect to resources that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of resources, rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same resources based upon production history will result in variations, which may be material, in the estimated resources.

Financing Risk

Prior to commercial production from the Audet Lands, which is not expected prior to late 2016, and is subject in any event to the risks described in this section, SilverWillow will have limited financial resources and a limited source of income, principally in the form of asset sales and farm-outs. SilverWillow anticipates making substantial capital expenditures for the acquisition, exploration, evaluation, delineation, development of and production from any potential project related to its properties. There can be no assurance that debt or equity financing, a bank loan facility or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to SilverWillow. The inability of SilverWillow to access sufficient capital for its operations could have a material adverse effect on SilverWillow's business, financial condition, results of operations and prospects, could result in the delay or indefinite postponement of further exploration, evaluation and development of SilverWillow's properties or the possible loss of its properties and could put at risk SilverWillow's ability to operate as a going concern.

Capital requirements are subject to normal capital market risks, primarily the availability and cost of capital. The extent to which SilverWillow will need to access additional funding will be subject to normal capital market risks, primarily the availability and cost of capital. Continuing improvement and sustainability of the global financial markets will be critical in determining the availability and cost of the debt and equity financing that may be required for development of the Audet Lands, the Birch Mountain Lands and the Other Exploration Lands.

Expectations for the future price of oil will be an important factor determining SilverWillow's ability to access debt financing at the time that this may become necessary. See "*Risk Factors – Oil and Natural Gas Prices.*"

The Governments of Canada and Alberta are responding to the growing public concern and international criticism of Canada's environmental record, driven in large part by oil sands development. To date, these responses have continued to stress the importance of oil sands development to Canada's economic opportunities and have had limited impact on the pace or cost of development. However, future initiatives could have a more significant impact on the cost of oil sands development and hence the availability of financing for such developments.

Availability of Credit Facilities and Debt Service

There can be no assurance that SilverWillow will have access to credit facilities that are (i) large enough to sufficiently finance SilverWillow's capital costs, and (ii) available on commercial terms acceptable to SilverWillow, or at all. In the event that any of the foregoing occurs, SilverWillow may be required to seek additional sources of equity or debt in order to carry out its business plans.

Neither SilverWillow's articles nor its by-laws limit the amount of indebtedness that SilverWillow may incur. The level of SilverWillow's indebtedness from time to time could impair SilverWillow's ability to obtain additional financing on a timely basis or take advantage of business opportunities as they arise.

Commodity Price Volatility

Our financial performance also depends on revenues from the sale of commodities which differ in quality and location from underlying commodity prices quoted on financial exchanges. Of particular importance are the price differentials between light/medium oil, heavy oil (in particular the light/heavy differential) and bitumen and quoted market prices. Not only are these discounts influenced by regional supply and demand factors, they are also influenced by other factors such as transportation costs, capacity and interruptions; refining demand; the availability and cost of diluent used to transport product; and the quality of the oil produced, all of which are beyond our control.

Exposure to Counterparties

In the normal course of business we enter into contractual relationships with suppliers, partners and other counterparties in the energy industry and other industries for the provision and sale of goods and services. If such counterparties do not fulfill their contractual obligations, we may suffer financial losses, may have to delay our development plans or may have to forego other opportunities which may materially impact our financial condition or operational results.

Personnel

Further exploration and evaluation and any future project delineation and development of the Audet Lands, the Birch Mountain Lands and the Other Exploration Lands will require experienced executive and management personnel and operational employees and contractors with expertise in a wide range of areas. There can be no assurance that all of the required employees and contractors with the necessary expertise will be available. Should other oil sands projects or expansions proceed in the same time frame as SilverWillow's projects, SilverWillow may compete with these other projects for experienced employees and contractors and such competition may result in increases to compensation paid to such personnel or to a lack of qualified personnel.

Any inability on the part of SilverWillow to attract and retain qualified personnel may delay or interrupt the exploration and evaluation and future project delineation and development on the Audet Lands, the Birch Mountain Lands or the Other Exploration Lands. Sustained delays or interruptions could have a material

adverse effect on the financial condition and performance of SilverWillow. In addition, rising personnel costs would adversely impact the costs associated with the exploration and evaluation and future project delineation and development on the Audet Lands, the Birch Mountain Lands or the Other Exploration Lands, which could be significant and material.

Project Costs

The total costs to evaluate, design and delineate projects for SilverWillow's properties and commence commercial bitumen extraction operations have not been and will not be fully determined until the commissioning of any future projects relating to such properties is completed. Further, there can be no assurance that future development or construction activities will commence in accordance with expectations or at all. Delays could result in an increase to any future project costs.

Capital costs associated with the development of SilverWillow's properties will not be fully determined until the future projects in respect of such properties are completed. There is no assurance that capital cost overruns will not occur. Moreover, existing oil sands development projects have at times experienced escalating costs and significant cost overruns.

The operating costs of an oil sands development project, which have potential to vary considerably, are significant components of the cost of production of the petroleum products produced by any such project. If significant increases in operating costs are incurred they may have a material adverse effect on SilverWillow.

SilverWillow does not expect to hold project delay/cost overrun insurance in the future and, even if such insurance is available at a reasonable cost and obtained, there can be no assurance that the coverage amount will be sufficient for all cost overruns, that SilverWillow will be able to satisfy the conditions to making a claim under such insurance, that SilverWillow will be successful in asserting any claim under such insurance, or that any claims under insurance will be paid in a timely fashion.

Lease Tenure

SilverWillow's properties are held in the form of leases and working interests in leases. If SilverWillow or the holder of the lease fails to meet the specific requirement of a lease, the lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each lease will be met. The termination or expiration of SilverWillow's leases or the working interests relating to a licence or lease may have a material adverse effect on SilverWillow's business, financial condition, results of operations and prospects.

Environmental and Regulatory Approvals

The design, construction, operation and decommissioning of potential future projects related to SilverWillow's leases and reclamation of the land to be held by SilverWillow will be conditional upon various environmental and regulatory approvals issued by governmental authorities. There is no assurance such approvals will be issued, or, once issued or renewed, that they will not contain terms and conditions which make SilverWillow's potential future projects uneconomic or cause SilverWillow to significantly alter potential future projects from what would otherwise be planned. Although SilverWillow believes that any future projects will be in general compliance with applicable environmental and safety regulatory approvals, statutes and regulations, risks of substantial costs and liabilities are inherent in oil sands recovery operations and there can be no assurance that substantial costs and liabilities will not be incurred or that any of its future projects will be permitted to carry on operations. Moreover, it is possible that other developments, such as increasingly strict environmental and safety statutes, regulations and enforcement policies there under, and claims for damages to property or persons resulting from SilverWillow's operations, could result in substantial costs and liabilities to SilverWillow or delays to or abandonment of any future projects of SilverWillow.

SilverWillow will be responsible for obtaining and complying with the applicable environmental and regulatory approvals, compliance with the applicable laws and regulations regarding environmental protection and operational safety laws and regulations, and all associated costs, which could be substantial.

SAGD Bitumen Recovery Process

It is currently anticipated that a future development project associated with the Audet Lands will utilize SAGD processes for recovery of some portion of the bitumen attributed to the property. The recovery of bitumen using SAGD processes is subject to uncertainty. Current SAGD technologies for in situ extraction of bitumen are energy intensive, requiring significant consumption of natural gas or other fuels to produce steam for use in the recovery process. The amount of steam required in the production process can vary and may impact costs; at this stage there is no certainty that there is sufficient caprock to provide steam containment. The quality and performance of the bitumen reservoir can also impact steam-oil-ratio and the timing and levels of production using this technology. Should SilverWillow encounter adverse reservoir conditions in any future operations, bitumen recovery levels achieved by SilverWillow using SAGD processes may be negatively impacted.

Abandonment and Reclamation Costs

SilverWillow will need to comply with the terms and conditions of environmental and regulatory approvals and all laws and regulations regarding the abandonment of any of its future projects and reclamation of such project lands at the end of their economic life, which may result in substantial abandonment and reclamation costs. Any failure to comply with the terms and conditions of future approvals and such legislation and/or regulations may result in the imposition of fines and penalties.

It is not possible at this time to estimate abandonment and reclamation costs reliably since they will, in part, depend on the nature and scope of SilverWillow's future projects and future regulatory requirements. In addition, in the future, SilverWillow may determine it prudent or be required by applicable laws, regulations or regulatory approvals to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs. If SilverWillow establishes a reclamation fund, its liquidity and cash flow may be adversely affected.

Engagement of Stakeholders in Development of the Audet Lands

SilverWillow expects that achieving and maintaining strong relationships with the local communities, including Aboriginal communities, will be a key factor in its success, and that the associated costs to meet the various government initiatives and stakeholder concerns must be managed to ensure that SilverWillow will be granted approval to develop its oil sands resources.

SilverWillow intends to continue undertaking an engaged outreach program with government regulators and stakeholder communities to ensure the corporation gains a strong understanding of their concerns and reach agreement on how the corporation will attempt to address those concerns within project design parameters.

Participant involvement compliance can require significant expenditures and may involve considerable effort that may impact the timing of SilverWillow's exploration, production and development activities. However, failure to comply with participant involvement legislation may result in SilverWillow's inability to obtain the necessary licenses and permits required to carry out SilverWillow's exploration and development programs. At the same time, there can be no assurance that SilverWillow will be able to obtain all of the necessary licences and permits required for its exploration and development programs.

Crude Oil, Bitumen and Natural Gas Prices

SilverWillow's financial results will be dependent upon the prevailing price of crude oil, bitumen and natural gas. Crude oil and bitumen prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of SilverWillow. Political and economic developments around the world can affect world crude oil and bitumen supply and crude oil and bitumen prices. Low crude oil and bitumen prices could impact the liquidity of the SilverWillow Shares. In situ thermal oil sands operations use heat, primarily in the form of steam, to facilitate the bitumen recovery process. Large quantities of natural gas are used in SAGD and cyclic steam stimulation recovery processes and the cost of natural gas represents a significant operating cost in such projects. Natural gas prices fluctuate in response to national and continental North American supply and demand factors beyond the control of SilverWillow. In addition, North American gas producers are actively pursuing alternative markets through liquefied natural gas exports, which could increase the demand for North American natural gas. High natural gas prices could impact SilverWillow's operating costs and financial results.

Any prolonged period of low commodity prices could result in a decision by SilverWillow to suspend or reduce the proposed development of the Audet Lands or other oil sands leases in which it owns an interest. Any such suspension or reduction of proposed production would result in a corresponding substantial decrease in SilverWillow's revenues and earnings and could materially impact SilverWillow's ability to meet any future debt servicing obligations and could expose SilverWillow to significant additional expense as a result of any future long-term contracts. If production was not suspended or reduced during such period, the sale of the petroleum products produced at such reduced prices would lower SilverWillow's revenues.

Royalty Regime

In the event that SilverWillow's properties are developed and become operational projects, SilverWillow's revenue and expenses will be directly affected by the royalty regime applicable to the projects. The economic benefit of future capital expenditures for the projects will be, in many cases, dependent on a satisfactory royalty regime. There can be no assurance that the Government of Canada and the Province of Alberta will not adopt a new royalty regime which will make capital expenditures uneconomic or that the regime currently in place will remain unchanged. As the resource owner, the Government of Alberta is entitled to take its royalty share of bitumen production in-kind, as it does currently for conventional oil production. In February 2011, the Government of Alberta announced that it had entered into contracts to commercially upgrade and refine a portion of its bitumen royalty in-kind volumes to higher value products.

Operational Hazards

The exploration, development, construction and operation of SilverWillow's properties will be subject to the customary hazards of recovering, transporting and processing hydrocarbons, such as fires, explosions, gaseous leaks, migration of harmful substances, blowouts and oil spills. An occurrence of this nature might result in the loss of equipment or life, as well as injury or property damage. The exploration, development, construction or operation of SilverWillow's properties could be interrupted by natural disasters or other events beyond the control of SilverWillow.

In accordance with industry practice, SilverWillow does not expect to be fully insured against all of these risks, nor are all such risks insurable. Although SilverWillow intends to attempt to secure liability insurance in an amount that it considers appropriate, such insurance may not be available and even if available, the nature of these risks is such that liabilities could exceed policy limits, in which event SilverWillow could incur significant costs. Losses resulting from the occurrence of any of these risks could have a material adverse effect on SilverWillow.

Recovering bitumen from oil sands involves particular risks and uncertainties. SilverWillow's projects will be susceptible to loss of production, slowdowns, or restrictions on its ability to produce higher value

products due to the interdependence of its component systems. Severe climatic conditions can cause reduced production and in some situations result in higher costs.

Transportation Capacity and Pipelines Interruptions

In the future, operation of SilverWillow's properties could be dependent on pipelines, and refineries; disruptions in, or restricted availability of pipeline service, could adversely affect production, refining operations and cash flow. Interruptions or restrictions in the availability of these pipeline systems may limit the ability to deliver production volumes and could adversely impact commodity prices, sales volumes or the prices received for our products. These interruptions and restrictions may be caused by the inability of the pipeline to operate, or they could be related to capacity constraints as the supply of feedstock into the system exceeds the infrastructure capacity. There can be no certainty that investments in pipelines which would result in extra long-term take-away capacity will be made by applicable third party pipeline providers. There is also no certainty that short-term operational constraints on the pipeline system, arising from pipeline interruption and/or increased supply of crude oil, will not occur. In addition, planned or unplanned shutdowns or closures of our refinery customers may limit our ability to deliver product in the future with negative implications on sales and cash from operating activities.

Government Regulation

The oil and gas industry in Canada, including the oil sands industry, operates under federal and provincial statutes and regulations governing such matters as land tenure, prices, royalties, production rates, environmental protection controls, the export of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments in such matters as the awarding or acquisition of exploration and production rights, oil sands or other interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields and well sites (including restrictions on production) and possible expropriation or cancellation of lease rights. The regulatory scheme as it relates to oil sands, and the recovery and marketing of bitumen or bitumen by-products from oil sands is somewhat different from that related to conventional oil and gas in general.

Government regulations may be changed from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing statutes or regulations, the implementation of new statutes or regulations or the modification of existing statutes or regulations affecting the crude oil and natural gas industry could impact the markets for crude oil and natural gas, delay or stop the development of SilverWillow's projects, or increase SilverWillow's costs and have a material adverse impact on SilverWillow.

Environmental Considerations

The operations of SilverWillow will be affected in varying degrees by federal and provincial statutes and regulations regarding the protection of the environment. Should there be changes to existing statutes or regulations, SilverWillow's competitive position within the oil sands industry may be adversely affected, as many industry players have greater resources than SilverWillow.

No assurance can be given that future environmental approvals, laws or regulations will not adversely impact SilverWillow's ability to develop and operate its projects or increase or maintain production or will not increase unit costs of production, or to realize other business opportunities from its exploration leases. Equipment from suppliers which can meet future emission standards may not be available on an economic or timely basis and other methods of reducing emissions to required levels in the future may significantly increase operating costs or reduce output. There is a risk that the federal and/or provincial governments could pass legislation which would tax such emissions or require, directly or indirectly, reductions in such emissions produced by energy industry participants, which SilverWillow may be unable to mitigate.

SilverWillow intends to implement programs that support an environmental management system, including impact assessments, audits, compliance, reporting and regulatory updates. It will co-operate fully with the other oil sands developers in an attempt to manage and mitigate cumulative environmental impacts of the oil sands development, including such matters as sharing access roads and utility corridors for infrastructure development.

Greenhouse Gases

Greenhouse gas emissions continue to be a concern of the environmental non-government organizations and the public. The oil sands, like other industries, emit CO₂ which is a by-product from the use of natural gas in generating steam for *in situ* bitumen extraction. Currently, oil sands production accounts for less than seven% of Canada's greenhouse gas emissions. To put this in context, the transportation and electricity sectors contribute 38% of Canada's greenhouse gas emissions. Improvements in the efficiency of the extraction processes in the oil sands industry have resulted in a 26% reduction in emissions per barrel since 1990¹.

The Government of Alberta implemented greenhouse gases regulations in 2007, requiring companies to reduce their greenhouse gases emission intensity by 12%. New projects are given a three year start up period after which the 12% reduction target is phased in at 2% per year. In the event that a company is not able to meet the targets, companies can pay \$15/tonne to the Climate Change and Emissions Management fund or invest in Alberta-based offsets. SilverWillow factors the costs of meeting this requirement into its financial and economic models.

In addition to the Alberta greenhouse gases regulations, the Federal government has indicated that it is developing new regulations for emissions. The current priority is to focus on transportation related regulations, the sector that accounts for the largest proportion of greenhouse gases emissions. Details on how future regulations will affect the oil sands sector are not yet defined.

Note:

1. Environment Canada's report entitled "Canada's Emissions Trends", published in August 2012. Readers are urged to consult the full text of the report which is available on the Environment Canada's website at www.ec.gc.ca.

Sales of Additional Securities

SilverWillow may issue additional SilverWillow Shares or other securities to finance its interest in the Audet Lands, the Birch Mountain Lands and the Other Exploration Lands or certain of SilverWillow's other capital or operating expenditures, or to make acquisitions of new properties or projects. The constating documents of SilverWillow permit it to issue an unlimited number of additional SilverWillow Shares and an unlimited number of SilverWillow Preferred Shares. The SilverWillow Board of Directors has discretion to determine the issue price and the terms of issue of SilverWillow Shares. Such future issuances may be dilutive to investors. SilverWillow Shareholders have no pre-emptive rights under SilverWillow's constating documents to participate in any future offerings of securities.

Title Risks

SilverWillow is satisfied that it will have good and proper right, title and interest in and to the leases that it intends to develop. However, SilverWillow has not obtained title opinions in respect of all of the leases and, accordingly, SilverWillow's ownership of certain leases could be subject to prior unregistered agreements or interests or undetected claims or interests.

Independent Reviews

Although third parties have prepared reviews, reports and projections relating to the viability and expected performance, it cannot be assured that these reports, reviews and projections and the assumptions on which they are based will, over time, prove to be accurate.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009 and 2010, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions have improved since 2009, a number of significant global financial risks remain. These factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

Competition

The Canadian and international petroleum industry is highly competitive in all aspects, including the exploration for, and the development of, new sources of supply, the acquisition of conventional oil and oil sands interests and the distribution and marketing of petroleum products. SilverWillow's projects and exploration leases will compete with other bitumen producers, other producers of heavy oil blends and other producers of conventional crude oil. Some of the conventional producers have lower operating costs than SilverWillow is anticipated to have. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers.

A number of companies other than SilverWillow have announced plans to enter the oil sands business and begin production of bitumen or heavy oil, or expand existing operations. Expansion of existing operations and development of new projects could materially increase the supply of heavy oil and other competing crude oil products in the marketplace. Depending on the levels of future demand, increased supply could have a negative impact on prices.

Foreign Exchange

Crude oil prices are generally based on a U.S. dollar market price, while certain operating and capital costs will be primarily in Canadian dollars. Fluctuations in exchange rates between the U.S. and Canadian dollar will therefore give rise to foreign currency exchange exposure. SilverWillow may mitigate the impact of exchange rate fluctuations on the revenue by hedging. There is no assurance that any hedging which may be undertaken by SilverWillow will be successful and, if not successful, could result in a material adverse effect on SilverWillow's financial condition and business.

Hedging Risks

The nature of SilverWillow's operations will result in exposure to fluctuations in commodity prices. SilverWillow may use financial instruments and physical delivery contracts to hedge its exposure to these risks. If SilverWillow engages in hedging it will be exposed to credit related losses in the event of non-performance by counterparties to the financial instruments. Additionally, if product prices increase above those levels specified in any future hedging agreements, SilverWillow could lose the cost of floors or ceilings or a fixed price could limit it from receiving the full benefit of commodity price increases.

SilverWillow may also hedge its exposure to the costs of inputs to the Audet Lands, the Birch Mountain Lands or the Other Exploration Lands. If the prices of these inputs fall below the levels specified in any future hedging agreements, SilverWillow could lose the cost of ceilings or a fixed price could limit it from receiving the full benefit of commodity price decreases.

Seasonal Weather Patterns

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain of the oil sands leases in which SilverWillow will have an interest are inaccessible during certain non-winter months because the access to the sites, and certain areas within the sites, consist of poorly drained terrain. These conditions can affect the ability to conduct exploration and delineation drilling on the lands in which SilverWillow will have an interest.

Aboriginal Claims

The legal framework describing treaty and traditional land rights is becoming more definitive following a number of recent court rulings. Addressing these rights is becoming generally more complex and time consuming, particularly following the release in late 2006 and subsequent revisions of the Government of Alberta Guidelines for Aboriginal Consultation, in which it expects industry to assume a greater responsibility to consult with Aboriginal communities impacted by oil sands exploration and development activities. These requirements can result in time consuming negotiations over compensation for impacting Aboriginal rights. These negotiations could result in slowing of government approvals required to conduct SilverWillow's normal business and result in unplanned project costs.

In western Canada, aboriginal groups have historically filed claims in respect of their aboriginal rights and treaty rights against the Governments of Canada and Alberta, and other government bodies which may affect our business. No certainty exists that any lands currently unaffected by claims brought by aboriginal groups will remain unaffected by future claims.

Public Perception and Influence on Regulatory Regime

Development of the Alberta oil sands has received considerable attention to recent public commentary on the subjects of environmental impact, climate change and GHG emissions. Despite the fact that much of the focus is on bitumen mining operations and not in-situ production, public concerns about GHG emissions and water and land use practices in oil sands developments may directly or indirectly impair the profitability of our current oil sands projects, and the viability of future oil sands projects, by creating significant regulatory uncertainty leading to uncertain economic modeling of current and future projects and delays relating to the sanctioning of future projects.

Negative consequences which could arise as a result of changes to the current regulatory environment include, but are not limited to, extraordinary environmental and emissions regulation of current and future projects by governmental authorities, which could result in changes to facility design and operating requirements, thereby potentially increasing the cost of construction, operation and abandonment. In addition, legislation or policies that limit the purchase of crude oil or bitumen produced from the oil sands may be adopted in domestic and/or foreign jurisdictions, which, in turn, may limit the world market for this crude oil and reduce its price.

Future Acquisitions

As part of its growth strategy, SilverWillow expects to continue to evaluate and, where appropriate, pursue acquisitions of additional oil sands leases. Acquisitions of oil sands leases, as well as the exploration and development of land subject to such leases, may require substantial capital or the incurrence of substantial additional indebtedness. Furthermore, the acquisition of any additional oil sands leases may not ultimately increase SilverWillow's discovered resources or result in any production of bitumen. If SilverWillow consummates any future acquisitions of oil sands leases, it may need to change its anticipated capital expenditure programs.

Additionally, such acquisitions may result in SilverWillow's capitalization and results of operations changing significantly. Investors will not have the opportunity to evaluate the economic, financial and other relevant information that SilverWillow will consider in determining the application of its funds and other resources with respect to such acquisitions.

Public Market for SilverWillow Shares

If an active public market is not maintained, investors may have difficulty selling their SilverWillow Shares at any given time at a price that the investor may consider reasonable. The lack of an active market may also reduce the fair market value and increase the volatility of the SilverWillow Shares and may impair SilverWillow's ability to raise capital by selling SilverWillow Shares.

REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of SilverWillow Energy Corporation (the "Corporation") are the responsibility of Management. The financial statements have been prepared by Management in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain assessments that reflect management's best estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented in all material respects. The financial information contained elsewhere in Management's Discussion and Analysis has been reviewed to ensure consistency with the financial statements.

KPMG LLP, an independent firm of Chartered Accountants, has been engaged to audit and provide their independent audit opinion on the Corporation's financial statements as at December 31, 2012. They have performed such tests as they deemed necessary to enable them to express an opinion on the financial statements.

The Corporation's Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. This responsibility is exercised through the Audit Committee, which is appointed by the Board of Directors. The Audit Committee has a mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee of the Board of Directors has reviewed these financial statements and the management's discussion and analysis with Management and the external auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements and the management's discussion and analysis on the recommendation of the Audit Committee.



Howard J. Lutley
President and Chief Executive Officer



Michael Stevens
Vice President and Chief Financial Officer

April 17, 2013



KPMG LLP
205-5th Avenue SW
Suite 2700, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of SilverWillow Energy Corporation

We have audited the accompanying financial statements of SilverWillow Energy Corporation, which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flows for the period from incorporation on January 5, 2012 to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 our 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, we consider 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 audit 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 SilverWillow Energy Corporation as at December 31, 2012, and its financial performance and its cash flows for the period from incorporation on January 5, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

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KPMG Confidential

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial statements which indicates that SilverWillow Energy Corporation's cash and cash equivalents at December 31, 2012 are likely not sufficient to fund its operating and investing activities significantly beyond 2013. These conditions, along with other matters as set forth in Note 1 in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about SilverWillow Energy Corporation's ability to continue as a going concern.



Chartered Accountants

April 17, 2013
Calgary, Canada

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KPMG Confidential

SILVERWILLOW ENERGY CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2012

(Stated in thousands of dollars)

December 31, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 26,505
Accounts receivable	189
Prepaid expenses	187

Total Current Assets 26,881

Exploration and Evaluation Assets (note 5) 99,062

Property and Equipment (note 6) 271

Deferred Taxes (note 8) 482

Total Assets \$126,696

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued liabilities	\$ 1,874
Flow-through share premium liability(note 7)	616

Total Liabilities 2,490

Shareholders' Equity

Common shares (note 7)	125,419
Contributed surplus	965
Deficit	(2,178)

Total Shareholders' Equity 124,206

Future operations (note 1)

Commitments (note 11)

Subsequent events (notes 11 and 13)

Total Liabilities and Shareholders' Equity \$126,696

see accompanying notes to financial statements

On behalf of the Board



Director



Director

SILVERWILLOW ENERGY CORPORATION

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Period from Incorporation on January 5, 2012 to December 31, 2012

(Stated in thousands of dollars)

Expenses	
General and administrative	\$ 2,739
Depreciation	90
Loss from operations	(2,829)
Interest income	226
Loss before income taxes	(2,603)
Deferred income tax benefit (note 8)	(425)
Loss and comprehensive loss	\$(2,178)
Loss per share - basic and diluted (note 7)	\$ (0.05)
Weighted average common shares outstanding - basic and diluted (note 7)	40,803,015

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Period from Incorporation on January 5, 2012 to December 31, 2012

(Stated in thousands of dollars - unaudited)	Number of Shares Issued	Common Shares	Contributed Surplus	Deficit	Total Equity
Balance, January 5, 2012	-	\$ -	\$ -	\$ -	\$ -
Share issuance on Arrangement (note 1)	53,480,031	122,303	-	-	122,303
Flow-through shares issuance (note 7)	3,200,000	3,360	-	-	3,360
Share issue cost net of tax benefit	-	(244)	-	-	(244)
Share based payments	-	-	965	-	965
Net loss	-	-	-	(2,178)	(2,178)
Balance, December 31, 2012	56,680,031	\$125,419	\$965	\$(2,178)	\$124,206

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

STATEMENT OF CASH FLOWS

Period from Incorporation on January 5, 2012 to December 31, 2012

(Stated in thousands of dollars)

Cash Provided by (Used in):	
Operating Activities	
Net loss	\$(2,178)
Interest income	(226)
Items not involving cash:	
Share-based payment expense	663
Depreciation	90
Deferred income tax benefit (note 8)	(425)
Change in non-cash working capital (note 12)	216
Net Cash From Operating Activities	(1,860)
Investing Activities	
Additions to exploration and evaluation assets	(3,974)
Additions to property and equipment	(149)
Cash transferred from SilverBirch on Arrangement (note 1)	25,735
Interest received	226
Change in non-cash working capital (note 12)	2,853
Net Cash From Investing Activities	24,691
Financing Activities	
Issuance of common shares (note 7)	4,000
Share issue cost	(326)
Net Cash From Financing Activities	3,674
Increase in cash and cash equivalents	26,505
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$26,505

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Period from Incorporation on, January 5, 2012 to December 31, 2012

1. Corporate Information

a) Reporting Entity

SilverWillow Energy Corporation ("SilverWillow" or "the Corporation") was incorporated pursuant to the Canada Business Corporations Act on January 5, 2012. SilverWillow's head office is located at Suite 3100, 715 – 5th Ave SW Calgary, Alberta, Canada T2P 2X6. SilverWillow was incorporated for the purpose of participating in the Plan of Arrangement (the "Arrangement") announced January 9, 2012 involving SilverWillow, SilverBirch Energy Corporation ("SilverBirch"), Teck Resources Limited ("Teck") and 8071667 Canada Inc. (the "Purchaser"), which is a subsidiary of Teck. On April 4, 2012, SilverWillow completed the Arrangement.

b) Plan of Arrangement

On April 4, 2012, the Purchaser acquired all of the issued and outstanding common shares of SilverBirch not already owned by it or Teck and pursuant to the Arrangement, SilverBirch shareholders received cash consideration of \$8.50 per share and one SilverWillow common share, for each previously held SilverBirch common share.

Under the terms of the Arrangement, Teck transferred to SilverBirch and SilverBirch then transferred to SilverWillow its 50% interest in the Birch Mountain and Jordan lands. The transfer of the Birch Mountain Lands and Jordan Lands from Teck to SilverBirch was recorded in the SilverBirch statement of financial position at their estimated fair value since Teck and SilverBirch were not entities under common control at the time of the transfer. The fair value of the Jordan and Birch Mountain lands was determined based on similar lease transactions and other available market data for similar assets.

Under the Arrangement, SilverBirch transferred to SilverWillow its 100% interests in certain oil sands leases (including the Audet, Birch Mountain and Jordan lands), office equipment and leasehold improvements and approximately \$27 million in net working capital subject to closing adjustment. Upon completion of the Arrangement, the previous SilverBirch shareholders owned 100% of the SilverWillow common shares outstanding proportionate to their previous ownership of SilverBirch at the time the Arrangement was completed. The assets and liabilities transferred to SilverWillow from SilverBirch have been accounted for on a "continuity of interests" basis and recorded in SilverWillow's financial statements at the carrying amounts recorded in the SilverBirch balance sheet at the date of transfer, April 4, 2012. Carrying amounts of the assets and liabilities transferred to SilverWillow under the Arrangement are as follows:

(Stated in thousands of dollars)

Assets:	
Cash	\$ 25,735
Accounts receivable	2,121
Prepaid expenses	203
Exploration and evaluation assets	94,786
Property, plant and equipment	212
Total assets	\$123,057
Liabilities:	
Accrued liabilities	\$ 754
Total net assets	\$122,303

At the close of the Arrangement, the carrying amount of net assets transferred to SilverWillow has been ascribed to the common share capital of the Corporation. At closing, 53,480,031 common shares of SilverWillow were issued to SilverBirch shareholders.

In addition, certain indemnities have been granted by SilverWillow to SilverBirch under the terms of the Arrangement, including: (i) indemnification for pre-closing taxes of SilverBirch, the magnitude of which depends upon the fair value of the assets transferred from SilverBirch, for which any potential liability to SilverWillow is remote, based on the post-closing trading of SilverWillow shares; (ii) assumption of the indemnification granted by SilverBirch to UTS Energy Corporation (“UTS”) as part of the plan of arrangement between SilverBirch, UTS and Total E&P Canada Ltd., completed on October 1, 2010, regarding the availability of certain tax pools to UTS for taxation years ended on or prior to the effective date of that arrangement, the maximum exposure for which is estimated at \$3 million; and (iii) certain other indemnities relating to possible claims regarding the assets spun out by SilverBirch to SilverWillow. Management believes that any claims under these indemnities is unlikely.

c) Future Operations

SilverWillow is a pre-production oil sands company focused on the exploration for, and the development of in situ opportunities within the oil sands and heavy oil industry of Alberta, Canada. As such, the Corporation earns no operating revenue and is dependent upon equity issuances, debt financing, asset dispositions or entrance into joint arrangements with third parties to fund future operating and investing activities.

The Corporation’s cash and cash equivalents at December 31, 2012 are likely not sufficient to fund its operating and investing activities significantly beyond 2013. Based on the Corporation’s discovered petroleum initially-in-place and contingent bitumen resources already established for the Audet lands and significant other exploration land holdings, the Corporation expects to be able to raise additional financing to fund further expenditures. Until such time that the Corporation is successful in securing financing, there is a material uncertainty that may cast significant doubt as to the ability of the Corporation to continue as a going concern.

These financial statements have been prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operation. If this assumption were not appropriate, adjustments to these financial statements may be necessary

2. Basis of Presentation

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were approved by the Board of Directors on April 17, 2013.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis.

c) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, the Corporation’s functional currency.

d) Use of Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and use judgement regarding the reported amounts and presentation of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and disclosure of revenues and expenses during the applicable reporting period. Such estimates relate primarily to unsettled transactions and events at the reporting date. The key judgements made in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements are judgements regarding the going concern assessment, the identification and impairment assessment of cash generating units. Information about assumptions and estimation uncertainties that have the most significant risk of resulting in a material adjustment within the next financial year are the estimates of fair value and the recoverable amounts of exploration and evaluation assets, estimates regarding the going concern assessment and as well as estimates regarding the share based payments. Actual results ultimately may differ from these judgements and estimates.

3. Significant Accounting Policies

a) Transfers of Assets and Liabilities from Entities Under Common Control

Transfers of assets and liabilities not constituting a business from entities under common control are reflected in the consolidated financial statements from the date of transfer. The assets and liabilities transferred are recorded at the carrying amounts recognized in the financial statements of the transferor entity immediately prior to the transfer.

b) Financial Instruments

All financial instruments are initially recognized at fair value on the balance sheet. The method of subsequent measurement is dependent upon the classification of the financial instrument.

Financial instruments which are assets are required to be classified into the following categories: (i) financial assets at fair value through income or loss; (ii) held to maturity; (iii) loans and receivables; or (iv) available-for-sale. Financial instruments which are liabilities are required to be classified as either (i) financial liabilities at fair value through earnings or loss; or (ii) other financial liabilities. Brief descriptions of these categories follow:

(i) Fair Value Assets or Liabilities Through Earnings or Loss

A financial asset or liability is classified into this category if it is held for trading or designated as such upon initial recognition. These assets are comprised of derivatives or assets acquired liabilities incurred principally for the purpose of selling or repurchasing in the short-term. They are measured at fair value with changes in fair value included in earnings or loss. The Corporation does not currently hold any fair value assets or liabilities through earning or loss.

(ii) Held-to-Maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities with the intention to hold them to maturity. These assets are initially measured at fair value with subsequent measurement at amortized cost using the effective interest method. If there is objective evidence that held-to-maturity assets are impaired, the impairment loss is recognized in earnings or loss. The Corporation does not currently hold any held-to-maturity assets.

(iii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair

value with subsequent measurement at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in earnings or loss. The Corporation's cash and cash equivalents and accounts receivable are classified as loans and receivables and are carried at amortized cost which approximate fair values due to their short term nature.

(iv) Available for Sale

Available for sale assets are non-derivatives which are either designated as available for sale or not classified in any other category. Available for sale assets are measured at the lower of carrying amount or fair value less costs to sell. Gains or losses on available-for-sale assets are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses which are recognized in earnings or loss, until the asset is derecognized. The Corporation does not currently hold any available for sale assets.

(v) Other Financial Liabilities

Other financial liabilities are initially recognized at fair value with subsequent measurement at amortized cost using the effective interest method. Any gains or losses on the realization of other financial liabilities are recognized in earnings or loss. The Corporation's accounts payable and accrued liabilities are classified as other financial liabilities and are carried at amortized cost which approximate fair value due to their short term nature. Bank debt is to be initially recorded at total proceeds received less direct issuance costs.

(vi) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Other comprehensive income represents items such as the change in equity arising from unrealized gains and losses from financial instruments designated as available-for-sale and changes in fair value of derivatives designated as cash flow hedges, and is presented as a separate component of shareholders' equity on the balance sheet. The Corporation does not currently participate in hedging activities and does not have any other comprehensive income.

c) Cash and Cash Equivalents

Cash and cash equivalents comprise deposits with banks and other liquid investments such as commercial paper, money market deposits or similar instruments with initial maturities of three months or less.

d) Exploration and Evaluation Assets

Exploration and evaluation ("E&E") assets comprise costs to acquire non-producing resource properties or licences to explore and the costs associated with exploring for and evaluating the resource potential of these areas. In addition to land and licence acquisition costs, exploratory drilling, sampling and supporting lab work, geological, geophysical and seismic studies, and other directly attributable costs and activities relating to evaluating the technical feasibility and commercial viability of producing the resource base are included as E&E assets. E&E include a discounted current estimate of decommissioning costs. Costs incurred prior to obtaining the right to explore are expensed as incurred.

E&E assets are not depleted since the assets are not currently available for use. Technical feasibility and commercial viability are demonstrated when proved or probable reserves are determined to exist. Once technical feasibility and commercial viability have been shown to exist and the appropriate internal and external approvals have been granted for development, the asset is

transferred to property and equipment. If the asset is not prospective after sufficient work has been done to ascertain that it is the case, then the costs associated with the asset are written off.

e) Property and Equipment

P&E is carried at cost less accumulated depreciation and accumulated impairment losses. The cost of P&E comprises the purchase price, and any costs directly attributable to bringing the asset to the location and the condition required for its intended use.

f) Depreciation and Depletion

Depletion of oil sands leases and associated exploration / development costs will be provided for when production begins. Office equipment and leaseholds are depreciated on a straight-line basis over the estimated service lives of the assets.

g) Impairment of Assets

Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

If a financial asset carried at amortized cost is impaired, the impairment is measured as the difference between the carrying amount, or amortized cost of the asset, and the present value of the future cash flows discounted at the instrument's original effective interest rate. The impairment is recognized in earnings or loss. An impairment loss may be reversed if the reversal can be objectively related to an event occurring after the impairment loss recognition. For financial assets measured at amortized cost, the reversal is recognized in earnings or loss.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-Financial Assets

E&E assets are tested for impairment at each reporting period if impairment indicators exist, and immediately prior to a transfer of costs to P&E. P&E are also tested for impairment at each reporting period if impairment indicators exist.

P&E impairment is assessed at the CGU level. For E&E assets only, impairment may be tested at a level comprising one or more CGUs. When the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and written down to its recoverable amount. Recoverable amount is the higher of (i) the fair value less costs to sell and (ii) the value in use.

Fair value less costs to sell is determined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from the asset or CGU discounted using a pre-tax discount rate reflecting market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized within earnings or loss. A previously recognized impairment loss may be reversed if the assumptions used to determine the recoverable amount have changed since the impairment loss recognition. An impairment loss is reversed only to the extent that the

asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and depletion, if no impairment loss had been recognized.

h) Leases

Leases under which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lesser of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. The associated lease liability is drawn down over the life of the lease by allocating a portion of each lease payment to the liability with the remainder being recognized as finance charges.

Leases that do not transfer the risks and rewards of ownership to the Corporation are treated as operating leases and are expensed as incurred.

i) Provisions

The Corporation recognizes provisions when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are recognized for decommissioning obligations associated with the Corporation's E&E assets and P&E. An estimate of the present value of the expenditures expected to be required to settle the obligation is discounted using a pre-tax risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability updated at each reporting date. The increase in the provision due to the passage of time, or accretion, is recognized as a borrowing cost. Increases or decreases due to changes in the estimated cash flows underlying the obligation or discount rate are capitalized. Actual costs incurred upon settlement of the obligation are charged against the provision. As of December 31, 2012, the Corporation has no significant decommissioning obligations.

j) Income Taxes

Taxes are recognized in the statement of profit or loss, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes are estimated on taxable income at the statutory tax rates enacted or substantively enacted. Taxes on income in interim periods are recorded using the tax rate that would be applicable to expected annual income.

Deferred income taxes are recognized for the tax effect of differences between the accounting and income tax basis of an asset or liability. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates that are anticipated to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable income against which the deductible temporary differences, tax credits or tax losses carried forward can be applied. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination when, at the time of the transaction, neither accounting nor taxable profit are affected. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets are assessed at each reporting date for probability of realization of the related tax benefits.

k) Share-Based Payments

The Corporation accounts for share options granted to directors, officers, employees and contractors utilizing the fair value method to calculate a grant date fair value of the equity-settled share-based award granted using the Black-Scholes option pricing model and recording that fair value as compensation cost over the vesting period of the award with a corresponding increase in contributed surplus. Options vest in three equal annual instalments and each vesting tranche in an award is valued as a separate award with its own vesting period and grant date fair value. Forfeitures are estimated at grant date and subsequently revised each period until the vesting date. Compensation cost is either expensed or capitalized depending upon whether or not services provided by the individual are directly related to activities relating to the Corporation's E&E assets or P&E. Upon the exercise of the share-based award, the consideration received by the Corporation and the contributed surplus associated with the award are credited to share capital.

l) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) for the period by the weighted-average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated by adjusting the weighted-average number of common shares outstanding for dilutive instruments, which currently comprises share option grants for the Corporation. The number of shares included is computed using the treasury stock method, whereby dilutive instruments create an impact on the dilution calculation where the current value of the dilutive instrument exceeds its exercise price and the Corporation has positive earnings. The treasury stock method assumes that proceeds received from the exercise of "in-the-money" equity instruments are used to repurchase common shares. In any period in which a loss occurs, per share amounts are calculated excluding potentially dilutive securities.

m) Flow-Through Shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada), which provide that where share issuance proceeds are used to fund exploration and development expenditures, the related income tax deductions may be renounced to the subscribers of those shares. A premium liability is recognized for the share price premium paid by investors when acquiring the flow-through shares. The premium liability is reduced and deferred income taxes are recognized on the renounced tax deductions as eligible expenditures are incurred.

4. Future Accounting Policies

Management is assessing the impact of these new standards and amendments but they are not expected to have a material impact on the Corporation's financial statements.

In November 2009, IFRS 9 Financial Instruments was issued effective for periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard applies to the classification and measurement of financial assets. Further revisions to this standard are expected to address classification and measurement of financial liabilities, hedge accounting and derecognition. IFRS 9 is not effective until January 1, 2015.

In May 2011, IFRS 13 Fair Value Measurement was issued and is mandatory for periods beginning on or after January 1, 2013 with optional application to 2012 comparative figures. The standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard is a comprehensive standard intended for use across all IFRS standards which call for fair value measurement

In June 2011, IAS 19 Employee Benefits was amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance disclosure of employee benefits. The Corporation does not have any defined benefit pension plans and this standard is not therefore expected to impact the Corporation's financial statements.

5. Exploration and Evaluation Assets

(Stated in thousands of dollars)	Intangible oil sands leases and exploration costs
Cost	
Balance, January 5, 2012 (date of incorporation)	\$ -
Transfer of assets on close of Arrangement on April 4, 2012	94,786
Additions	4,276
Balance, December 31, 2012	\$99,062

For the ended December 31, 2012, general and administrative expenses totalling \$1,179,000 were capitalized to E&E assets, including \$302,000 of share-based payments.

6. Property and Equipment

(Stated in thousands of dollars)	Office equipment and leasehold improvements
Cost	
Balance, January 5, 2012 (date of incorporation)	\$ -
Transfer of assets on close of Arrangement on April 4, 2012	1,685
Additions	149
Balance, December 31, 2012	\$1,834
Accumulated depreciation	
Balance, January 5, 2012 (date of incorporation)	\$ -
Transfer of assets on close of Arrangement April 4, 2012	1,473
Depreciation	90
Balance, December 31, 2012	\$1,563
Carrying amounts	
Balance, January 5, 2012 (date of incorporation)	\$ -
Balance, December 31, 2012	\$ 271

7. Share Capital

a) Authorized:

Unlimited number of common shares without nominal or par value. Unlimited number of preferred shares issuable in series, the terms of which may be fixed by the Board of Directors before the issuance thereof. No preferred shares are currently issued or outstanding.

Flow-Through Common Share Issuance

In October 2012, the Corporation issued 3,200,000 flow-through shares at a price of \$1.25 per share for gross proceeds \$4.0 million before issue costs of \$0.3 million. As of December 31, 2012, the Corporation spent \$0.15 million on eligible expenditures and is committed to spend the remaining \$3.85 million before December 31, 2013. The flow-through share premium liability of \$0.6 million or \$0.20 per share was determined as the difference between the flow-through share issue price of \$1.25 and the fair value of the Corporation's common share.

b) Share-Based Payments:

On March 29, 2012, the shareholders of the Corporation approved a stock option plan ("Option Plan") for the Corporation. Under the Option Plan, the Board of Directors may grant options to directors, officers, employees and contractors. The aggregate number of shares that may be reserved for issuance pursuant to stock options ("Options") may not exceed 10% of the issued and outstanding common shares on a non-diluted basis of the Corporation at the time of granting. The Board of Directors shall determine exercise price, times when Options will be granted and exercisable, any restrictions or vesting provisions and the expiry dates. Options granted to date vest in three equal instalments on each of the first, second and third anniversaries of the date of grant. The exercise price of each option granted has been set as the closing price on the last trading day preceding the grant and term of the Options granted to date is 7 years. The following activity occurred during the period ended December 31, 2012.

	Number of Options	Average Exercise Price
Outstanding, January 5, 2012 (date of incorporation)	-	\$ -
Granted, April 18, 2012	3,973,000	1.20
Outstanding, December 31, 2012	3,973,000	\$1.20

The Corporation calculates the grant date fair value for share-based compensation awards and records the resulting cost over the vesting period of the award. The fair value of each vesting tranche of each award granted under the Option Plan is estimated on the date of grant using the Black-Scholes option pricing model using the following assumptions for the period ended December 31, 2012: risk free interest rates of 1.4%, expected lives of three to four years, and estimated volatility of 68%. The weighted average fair value of Options granted for the period ended December 31, 2012 was \$0.59 per option.

Share-based compensation of \$0.7 million was expensed and \$0.3 million was capitalized during the period ended December 31, 2012.

c) Earnings Per Share

The following table provides the basic and diluted earnings per share computations for the period ended December 31, 2012.

(Stated in thousands of dollars except for share amounts and per share amounts)

Net loss	\$(2,178)
Weighted average common shares outstanding - basic and diluted	40,803,015
Net loss per share – basic and diluted	\$ (0.05)

Excluded from the calculations for the period ended December 31, 2012 are 3,973,000 outstanding stock options as they are currently anti-dilutive due to the Corporation's loss position.

8. Income Taxes

The income tax benefit differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to loss before income taxes as follows:

(Stated in thousands of dollars except for percentages)	2012
Loss before income taxes	\$ (2,603)
Combined federal and provincial statutory tax rate	25%
Expected deferred income tax benefit	(651)
Decrease (increase) in benefit resulting from:	
Share based compensation	166
Flow-through shares expenditures to be renounced	14
Other	46
Deferred income tax benefit	\$ (425)

The components of the deferred income tax assets (liabilities) at December 31, 2012 are as follows:

(Stated in thousands of dollars)	2012
Share issue cost	\$ 65
Non-capital losses	784
Property & Equipment and Exploration & Evaluation assets	(367)
Net deferred tax asset (liability)	\$ 482

A deferred tax asset has been recognized as there will be sufficient taxable temporary differences that will arise from the flow-through share expenditures incurred in 2013 (see note 11) permitting the Corporation to utilize its deductible temporary differences.

The Corporation has non-capital loss carry-forwards of \$3.1 million that will expire in 2032.

The following table provides a continuity of the deferred income tax assets (liabilities):

(Stated in thousands of dollars)	January 5, 2012	Recognized in profit and loss	Recognized in equity	Flow-through shares	December 31, 2012
Share issue costs	\$0	\$(16)	\$81	\$ 0	\$ 65
Non-capital losses	\$0	784	0	0	\$784
Property & Equipment/ Exploration & Evaluation assets	\$0	(343)	0	(24)	\$(367)
	\$0	\$425	\$81	\$(24)	\$482

9. Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

a) Fair Value Measurement

The following methods were used and assumptions made in estimating fair values of the Corporation's financial instruments. Cash and cash equivalent balances at December 31, 2012 comprise primarily cash on deposit with bank and therefore the face value of the investments plus

interest received to date is the estimated fair value of the financial instrument. Accounts receivable and accounts payable and accrued liabilities are current. Due to the short term nature of these financial instruments, the carrying amounts approximate the fair values.

b) Risk Management

The Corporation's risk exposure associated with its financial instruments is summarized below.

(i) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations as they become due. The Corporation's financial position could be adversely affected if it failed to arrange financing for its operating and investment activities. The Corporation strives to maintain sufficient financial liquidity by forecasting cash flows for current and subsequent years to identify financing requirements on an ongoing basis. SilverWillow does not currently have any production revenue as it is a pre-production oil sands company focused on the exploration and development of in situ opportunities. The Corporation's cash and cash equivalents at December 31, 2012 are likely not to be sufficient to fund its operating and investing activities significantly beyond 2013. Since the Corporation does not currently earn any operating revenue and as its properties are still in the exploration and evaluation stage, the Corporation will be dependent upon equity issuances, debt financing, asset dispositions or entrance into joint arrangements with third parties to fund future operating and investing activities.

(ii) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. The Corporation's credit risk is primarily attributable to its holdings of cash equivalents and accounts receivable.

From time to time the Corporation has accounts receivable from other third parties, due to cost sharing arrangements undertaken as part of its winter exploration drilling programs and attempts to minimize credit risk by invoicing on a timely basis over the drilling season and at its conclusion.

Cash and cash equivalents held by the Corporation are only invested with counterparties meeting credit quality requirements and issuer and concentration limits as set out in the Corporation's investment guidelines. SilverWillow's cash investment policy and guidelines are reviewed periodically and emphasize security of assets and liquidity over investment yield. Therefore, the Corporation's management believe that credit risk associated with these investments is minimal.

(iii) Market Risk

The three components of market risk are interest rate risk, price risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Corporation will realize a loss as a result of a decline in the fair value of any of its cash and cash equivalents is minimal because the Corporation's investment policy requires that cash equivalents acquired be short term in nature and investments are currently held primarily with Canadian banks.

The Corporation currently has no debt or interest bearing liabilities. Interest rate risk will become more of a factor in the future if the Corporation takes on debt to fund future project expenditures.

Price risk

Since the Corporation is not yet a producing entity, commodity price risk does not impact earnings.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial instruments held by the Corporation are denominated in Canadian dollars and, as such, there is currently no currency risk associated with the financial instruments.

10. Capital Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the acquisition, exploration and development of its oil sands properties or potential other business and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Corporation considers the items included in shareholders' equity as capital. The Corporation is currently in the development stage and earns no operating revenue; as such the Corporation is dependent on external financing, share issuances, asset dispositions or entrance into joint arrangements with other parties to fund its activities.

<u>(Stated in thousands of dollars)</u>	<u>December 31, 2012</u>
Shareholders' Equity	\$125,337
Capital Managed	\$125,337

The Corporation manages the capital structure and makes adjustments in light of changes in economic conditions and risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, acquire or dispose of assets, obtain or repay bank debt, or enter into joint exploration and development arrangements with other parties. To facilitate the management of its capital requirements, the Corporation prepares annual expenditure budgets that are updated as necessary and which are approved by the Board of Directors. Longer term financial models are also utilized to schedule and forecast anticipated cash requirements. Excess cash is invested in accordance with an investment policy, which is reviewed periodically, thereby ensuring that cash is invested in highly liquid short-term interest-bearing investments, possessing pre-approved risk profiles, and is available as required. There were no changes in the Corporation's approach to capital management during the period ended December 31, 2012.

11. Commitments

Lease Commitments

The Corporation has committed to operating lease arrangements, for office space and equipment, in the aggregate amount of \$670,000 over the ensuing three years. Annual payments are as follows:

(Stated in thousands of dollars)

2012	\$253
2013	205
2014	212
Total	\$670

Operational Commitments

As part of operations relating to the seismic of the Birch Mountain area and Audet drilling program, the Corporation has entered into a total of \$11.1 million in capital expenditure commitments.

(Stated in thousands of dollars)

2012	\$ 200
2013	10,930
Total	\$11,130

12. Supplemental Cash Flow Information

Supplemental cash flow disclosure follows:

For the Period from Incorporation on, January 5, 2012 to December 31, 2012

(Stated in thousands of dollars)

Changes in non-cash working capital items:	
Decrease in accounts receivable	\$1,932
Decrease in prepaid expenses	17
Increase in accounts payable and accrued liabilities	1,120
Net change in non-cash working capital items	\$3,069
Changes in non-cash working capital relating to:	
Operations	\$ 216
Investing	2,853
	\$3,069

13. Subsequent Events

As of December 31, 2012, the Corporation had spent \$0.15 million of the \$4.0 million of the flow-through common share proceeds on eligible expenditures. The remaining \$3.85 million eligible expenditures had been incurred by March 31, 2013. The renouncement of flow-through common share eligible expenditures will be made by December 31, 2013.

On February 27, 2013 the Corporation granted 984,000 options to officers and employees with an exercise price of \$0.77 per option which expire on February 26, 2020.

CORPORATE INFORMATION

DIRECTORS

Donald R. Ingram, FCMA
Chairman
Corporate Director
Calgary, Alberta, Canada

Gregory A. Boland
President & Chief Executive Officer
West Face Capital Inc.
Toronto, Ontario, Canada

Bonnie D. DuPont
Corporate Director
Calgary, Alberta, Canada

Howard J. Lutley, P. Eng.
President & Chief Executive Officer
SilverBirch Energy Corporation
Calgary, Alberta, Canada

Timothy A. McGaw
President, Douglas Telecommunications Inc.
Kentfield, California, USA

Douglas H. Mitchell, C.M., A.O.E., Q.C.
National Co-Chairman
Borden Ladner Gervais LLP
Calgary, Alberta, Canada

Glen D. Roane
Corporate Director
Canmore, Alberta, Canada

William Watson
Corporate Director
Calgary, Alberta, Canada

OFFICERS

Howard J. Lutley, P. Eng.
President & Chief Executive Officer

Philip Aldred
Vice President, Resources

J. Cam Bateman
Vice President, Projects

Mike Stevens
Vice President & Chief Financial Officer

Dan McLeod
Corporate Secretary
Blake, Cassels & Graydon LLP

LEGAL COUNSEL

Blake, Cassels & Graydon LLP
Torys LLP

AUDITORS

KPMG LLP

REGISTRAR AND TRANSFER AGENT

TMX Equity Transfer Services
200 University Avenue, Suite 400
Toronto, Ontario
M5H 4H1
416-361-0470

SHARES LISTED

The TSX Venture Exchange
Trading Symbol: SWE

SILVERWILLOW ENERGY CORPORATION

Suite 3100
715 - 5 Avenue S.W.
Calgary, Alberta T2P 2X6
T 403-538-7030
F 403-538-7033
mail@swenergy.ca
www.swenergy.ca