



MESSAGE TO OUR SHAREHOLDERS

The end of the first quarter of 2013 continues to be characterized by a high degree of uncertainty in the economies of North America and the role of junior companies in the steadily growing Canadian oil sands industry. We continue to experience 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 improve, we anticipate that investor interest will return to the junior energy sector.

During the first 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). We continued 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 add significantly to the recoverable resource at Audet, and this will be addressed in the future.

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 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.

Howard Lutley
President and Chief Executive Officer
Calgary, Alberta, Canada
May 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at May 15, 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 unaudited condensed interim financial statements and accompanying notes as of and for the three months ended March 31, 2013 and the audited annual financial statements and accompanying notes and MD&A 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 from such events. 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 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 the remainder of 2013 SilverWillow’s main focus will be on activities related to progressing its Audet Lands towards commercial production through the completion of the Design Basis Memorandum (“DBM”) for the bitumen production facility, and preparation and submission of a regulatory application. In addition to working on our current properties, SilverWillow will continue to consider additional strategic opportunities in the oil sands and heavy oil industry that the Corporation believes will yield value to shareholders of SilverWillow (“SilverWillow Shareholders”).

FIRST QUARTER HIGHLIGHTS

The following activities were completed in the first quarter of 2013:

SilverWillow conducted a supplemental winter field program on the Audet Lands. This consisted of drilling nine core holes for exploration and delineation purposes, and the acquisition of additional caprock information from overburden core holes and mini-frac tests. The program was completed in March and analysis of the core samples and other data is in progress. 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 is in the process of determining the cost of a small steam containment pilot test for the Audet Lands, which would provide important field data regarding performance of the caprock, and will assist in the design of SilverWillow’s proposed 12,000 barrel per day steam assisted gravity drainage (“SAGD”) development project.

The independent resource evaluation of our Audet Lands resulted in an increase of the estimate of DPIIP from 1.69 billion barrels to 1.85 billion barrels, of which 68 million barrels were assigned as best estimate contingent bitumen resources.

During the first quarter of 2013 SilverWillow also completed a 2D seismic acquisition program on a prospective area of the Birch Mountain Lands. The data obtained from this program will be analyzed over the coming quarters, and results will be used to define a future exploration drilling program.

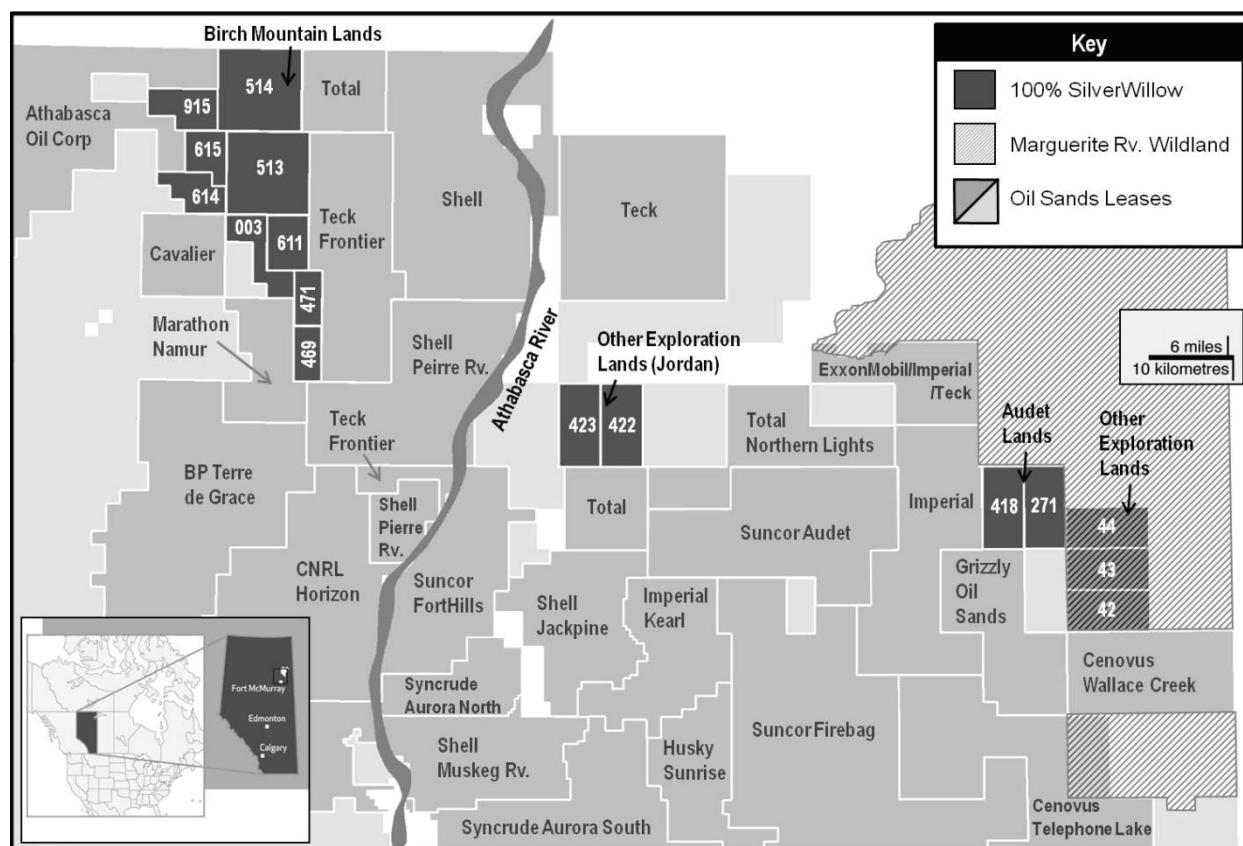
Reservoir simulation studies have been advanced during the first quarter to predict the performance of SAGD well pairs at safe operating pressures located in various pay thicknesses across the Audet project reservoir. Results of the modelling indicate that the steam to oil ratio of the project will vary from 1.9 to 2.8 over the life of the project.

SilverWillow’s engineering consultants continue to progress the design of bitumen extraction facilities for the first phase of the Audet Lands SAGD project. The facility is being designed to produce an annual average of 12,000 barrels per day at a steam to oil ratio of 2.5. The location of the central processing unit has been finalized and work continued on equipment sizing for the major components.

Environmental baseline studies were initiated in the first quarter with winter wildlife surveys of the project area. Environmental baseline surveys to support the environmental assessment and regulatory filing have also been scheduled to be completed in the spring and summer of 2013.

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

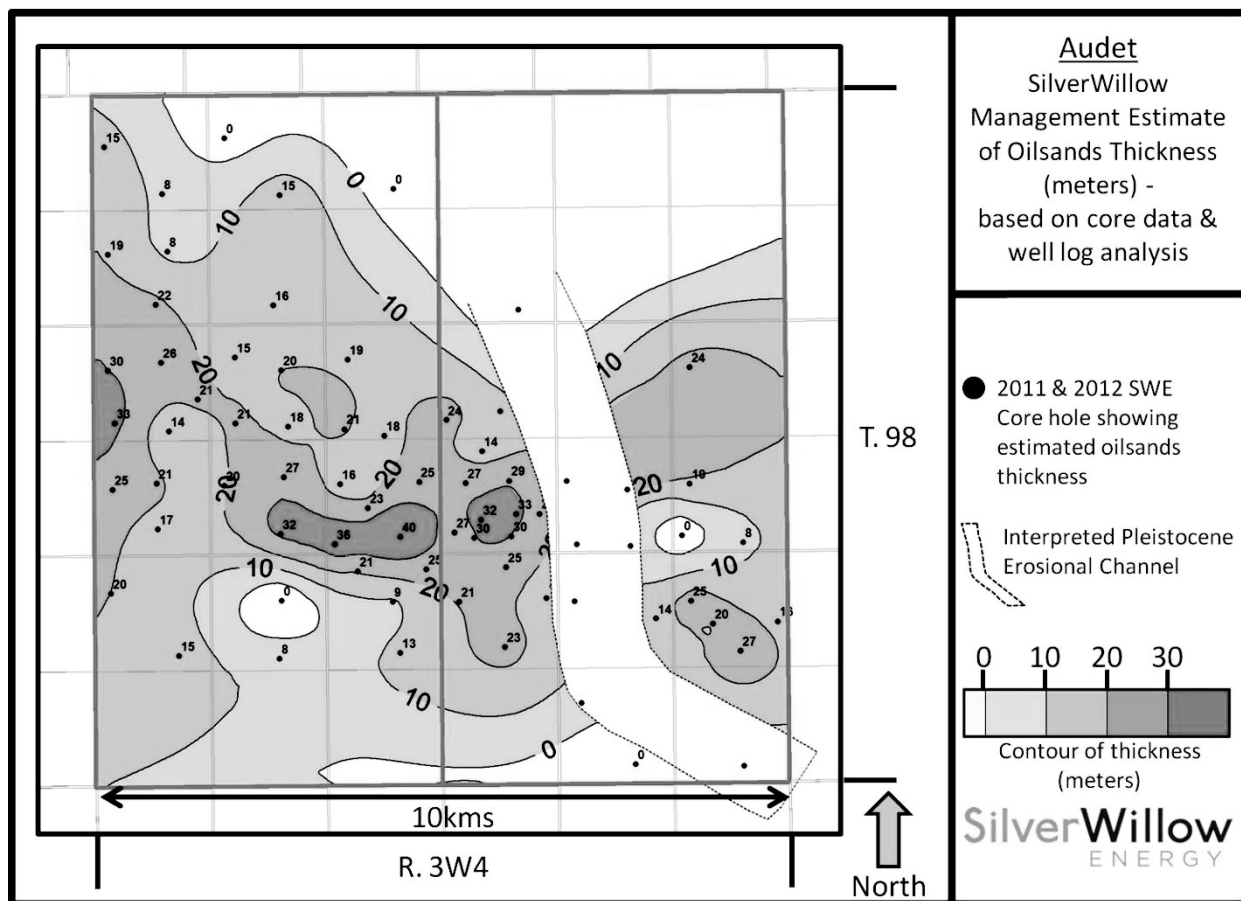
Building on the success of the 2011 program, a second winter field program was undertaken during the first quarter of 2012. This program comprised further resource delineation drilling; additional caprock evaluation, including mini-frac tests; hydrogeological evaluation and flow testing; and a 2D seismic 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 Lands 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 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, and prior to the formation of SilverWillow, no additional exploration activity was carried out on the Birch Mountain Lands. SilverWillow reinitiated exploration on the Birch Mountain Lands in 2012. In the second quarter of 2012, the Corporation completed a desktop geological study of the Birch Mountain Lands in order to identify locations for a 2D seismic program. Planning for the seismic program was completed in late 2012 and field work commenced in January 2013. SilverWillow concluded 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. The data obtained from this program will be analyzed over the coming quarters, and results will be used to define a future exploration drilling program.

The Birch Mountain Lands are at an early stage of evaluation and at this time, no resource estimates have been attributed to this property.

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 the Audet Lands, with lease 044 located immediately east of, and adjacent to, lease 271 of the Audet Lands. Being contiguous to the Audet Lands and given positive legacy well results, these lands have resource potential. Specifically, 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. However, surface access is not currently permitted as these lands are located in a wildland park, and there is no certainty that access will be permitted in the future.

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	81
Birch Mountain Lands	25
Other Exploration Lands	8
Total	114

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 March 31, 2013	Quarter Ended December 31, 2012	Quarter Ended September 30, 2012	Quarter Ended June 30, 2012
Finance Income ¹	\$ 67	\$ 90	\$ 72	\$ 64
Net Loss	(1,253)	(486)	(822)	(870)
Loss per share basic	(0.02)	(0.01)	(0.02)	(0.02)
Loss per share diluted	(0.02)	(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. As at March 31, 2012, apart from the \$1 cash received for the one common share issued at the time of incorporation, SilverWillow had no other assets, nor did it have any ongoing operations. Therefore there are no comparative figures to report for the period of incorporation to March 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 March 31, 2013 were \$1,253,000 or \$0.02 per share. 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 March 31, 2013 totalled \$1,129,000. Stock based compensation included in the G&A which has been expensed totalled \$242,000 for the three months ended March 31, 2013. Cash G&A expensed totalled \$887,000 for the three months ended March 31, 2013.

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 March 31, 2013 totalled \$409,000, including share-based payments capitalized of \$114,000.

G&A (Stated in thousands of dollars)	Three months ended March 31, 2013
Total G&A	\$1,538
Total G&A expensed	\$1,129
Share-based payments expensed	242
Cash G&A expensed	\$ 887
Total G&A capitalized to E&E assets	\$ 409
Share-based payments capitalized	114
Cash G&A capitalized	\$ 295

Income of \$67,000 for the three months ended March 31, 2013, comprised interest earned on its cash and cash equivalents and translates to a return of approximately 1.4% per annum. SilverWillow's cash investment policy and guidelines remain conservative, emphasizing security and liquidity of assets over investment yield.

Depreciation expense of \$31,000 for the three months ended March 31, 2013 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 March 31, 2013. 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 did not commence operations until April 4, 2012.

Capital Expenditures (Stated in thousands of dollars)	Three Months ended March 31, 2013
Exploration and Evaluation Assets:	
Exploration and evaluation costs	\$14,142
Capitalized cash G&A	295
Capitalized share-based payments	114
	14,551
Property and Equipment:	
Corporate furnishing and equipment	0
Total	\$14,551

Exploration and evaluation expenditures on the Corporation's oil sands leases include approximately \$9.8million and \$4.8 million spent on activities relating to the Audet Lands and Birch Mountain Lands, respectively. The activities undertaken relating the Audet Lands exploration program and Birch Mountain Lands have been described previously in this MD&A.

OUTSTANDING SHARE DATA

The following shares were outstanding at March 31, 2013 and May 15, 2013.

(\$ thousands, except share amounts)	Number of Shares	Consideration
Outstanding, March 31, 2013 and May 15, 2013	56,680,031	\$125,411

The following equity awards, entitling the holders to acquire common shares of the Corporation, were outstanding at May 15, 2013:

	Exercise Price	Weighted Average Exercise Price	Number Outstanding	Number Exercisable
Incentive Stock Options	\$0.77 - \$1.20	\$1.11	4,957,000	1,324,333

ACCOUNTING STANDARDS ISSUED FOR FUTURE APPLICATION

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

CHANGE IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Corporation in these interim financial statements are the same as those applied in its annual financial statements as at and for the year ended December 31, 2012. The following changes in accounting policies are also expected to be reflected in the Corporation's annual financial statements for the year ending December 31, 2013.

Amendments to IFRS 7, "Financial Instruments Disclosures", require additional disclosures regarding the Corporation's financial assets and financial liabilities that are subject to set-off rights and related arrangements. The adoption of this standard has no impact to the Corporation's financial statements.

IFRS 13, "Fair Value Measurement" establishes a single source of guidance for fair value measurement and disclosure of financial and non-financial items under IFRS. The adoption of this standard has no impact to 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.

In preparing these interim financial statements, significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

In December, 2012, the 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 G&A.

As of March 31, 2013, SilverWillow has approximately \$9.8 million in working capital. This provides sufficient funding for the estimated capital, general and administrative expenditures approved and planned until the end of 2013. SilverWillow has remaining committed expenditures for 2013 and 2014 combined of approximately \$0.3 million related to operations and office leases.

The Corporation's cash and cash equivalents at March 31, 2013 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 DPIIP and contingent bitumen resources already established for the Audet Lands and 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 are comprised of bankers' acceptances and deposits.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Cash and cash equivalent balances at March 31, 2013 are primarily comprised of cash on deposit with banks and therefore the face value of the investments plus interest received to date is the estimated fair value of the financial instrument. The Corporation's accounts receivable, accounts payable and accrued liabilities are short term in nature and therefore their carrying amounts approximate fair value.

The Corporation's risk exposure associated with its financial instruments are the same as those listed in the MD&A as at April 17, 2013, for the year ended December 31, 2012.

OUTLOOK

During the remainder of 2013, SilverWillow's main focus will be on activities related to progressing the Audet Lands towards commercial production through the completion of the DBM for the bitumen production facility, and preparation and submission of a regulatory application. In addition to working on SilverWillow's current properties, the Corporation will continue to consider additional strategic opportunities in the oil sands and heavy oil industry that the Corporation believes will yield value to SilverWillow 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.

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 fluctuations in oil prices, increase in exploration costs and 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.

There were no material changes to risks in the first quarter of 2013. Investors should carefully consider the risk factors set forth in the Corporation's MD&A for the year ended December 31, 2012.

SILVERWILLOW ENERGY CORPORATION

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(Stated in thousands of dollars-unaudited)	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,238	\$ 26,505
Accounts receivable	812	189
Prepaid expenses	258	187
Total Current Assets	17,308	26,881
Exploration and Evaluation Assets (note 4)	113,613	99,062
Property and Equipment	240	271
Deferred Taxes	-	482
Total Assets	\$131,161	\$126,696
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,485	\$ 1,874
Share-based liability	84	-
Flow-through share premium liability (note 7)	-	616
Deferred Taxes	187	-
Total Liabilities	7,756	2,490
Shareholders' Equity		
Common shares (note 5)	125,411	125,419
Contributed surplus	1,321	965
Deficit	(3,327)	(2,178)
Total Shareholders' Equity	123,405	124,206
Future operations (note 1)		
Total Liabilities and Shareholders' Equity	\$131,161	\$126,696

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Stated in thousands of dollars except share
amounts - unaudited)

For the Three Months ended
March 31, 2013

Expenses	
General and administrative	\$ 1,129
Depreciation	31
Loss from operations	(1,160)
Interest income	67
Loss before income taxes	(1,093)
Deferred income tax expense	56
Loss and comprehensive loss	\$(1,149)
Loss per share - basic and diluted (note 5)	\$ (0.02)
Weighted average common shares outstanding - basic and diluted	56,680,031

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in thousands of dollars except share amounts - unaudited)	Number of Shares Issued	Common Shares	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2013	56,680,031	\$125,419	\$ 965	\$(2,177)	\$124,207
Share issue cost net of tax benefit	-	(8)	-	-	(8)
Share based payment	-	-	356	-	356
Net loss	-	-	-	(1,149)	(1,149)
Balance, March 31, 2013	56,680,031	\$125,411	\$1,321	\$(3,326)	\$123,406
Shares issued on incorporation date January 5, 2012 and balance as at March 31, 2012	1	\$ 1	\$ -	\$ -	\$ 1

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(Stated in thousands of dollars-unaudited)	For the Three Months ended March 31, 2013	For the Three Months ended March 31, 2012
Cash Provided by (Used in):		
Operating Activities		
Net loss	\$(1,149)	-
Interest income	(67)	-
Items not involving cash:		-
Share-based payment expense	242	-
Depreciation	31	-
Deferred income tax expense	56	-
Change in non-cash working capital (note 8)	(875)	-
Net Cash From Operating Activities	(1,762)	-
Investing Activities		
Additions to exploration and evaluation assets	(14,437)	-
Interest received	67	-
Change in non-cash working capital (note 8)	5,875	-
Net Cash From Investing Activities	(8,495)	-
Financing Activities		
Issuance of common share		\$1
Share issue cost	(10)	-
Net Cash From Financing Activities	(10)	-
Increase (Decrease) in cash and cash equivalents	(10,267)	1
Cash and cash equivalents, beginning of period	26,505	-
Cash and cash equivalents, end of period	\$16,238	\$1

see accompanying notes to financial statements

SILVERWILLOW ENERGY CORPORATION

NOTES TO INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2013

1. Reporting Entity and Future Operations

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. Prior to the completion of the Arrangement, the Corporation had no activity other than the issuance of a single share for cash consideration of \$1.

b) 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 March 31, 2013 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 condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transaction that are significant to an understanding of the changes in the financial position and performance since the last annual financial statements as at and for the year ended December 31, 2012. These interim financial statements do not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim financial statements were approved by the Board of Directors on May 15, 2013.

b) Judgements and Estimates

Preparing these interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2012.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Corporation in these interim financial statements are the same as those applied in its annual financial statements as at and for the year ended December 31, 2012. The following changes in accounting policies are also expected to be reflected in the Corporation's annual financial statements for the year ending December 31, 2013.

Change in accounting policies

Amendments to IFRS 7, "Financial Instruments Disclosures", require additional disclosures regarding the Corporation's financial assets and financial liabilities that are subject to set-off rights and related arrangements. The adoption of this standard has no impact to the Corporation's financial statements.

IFRS 13, "Fair Value Measurement" establishes a single source of guidance for fair value measurement and disclosure of financial and non-financial items under IFRS. The adoption of this standard has no impact to the Corporation's financial statements.

4. 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
Additions	14,551
Balance, March 31, 2013	\$113,613

For the ended March 31, 2013, general and administrative expenses totalling \$409,000 were capitalized to E&E assets, including \$114,000 of share-based payments.

5. 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.

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 periods ended December 31, 2012 and March 31, 2013.

	Number of Options	Average Exercise Price
Outstanding, January 5, 2012 (date of incorporation)	-	\$ -
Granted	3,973,000	1.20
Outstanding, December 31, 2012	3,973,000	\$1.20
Granted	984,000	\$0.77
Outstanding, March 31, 2013	4,957,000	\$1.11

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 March 31, 2013: risk free interest rates of 1.3%, expected lives of three to four years, and estimated volatility of 69%. The weighted average fair value of Options granted for the period ended March 31, 2013 was \$0.54 per option.

Share-based compensation of \$0.3 million was expensed and \$0.1 million was capitalized during the period ended March 31, 2013.

c) Deferred Share Unit

On February 22, 2013, the Board approved granting of deferred share unit (“DSU”) under a new plan. A deferred share unit is redeemable for cash or a common share for a period of time after the unitholder ceases employment or board membership. Under the DSU plan, directors receive a portion of their annual director’s fees paid in DSUs whereby the DSUs issued are calculated by dividing the director’s fees by the trading price of the Corporation’s shares on the date that the DSUs are granted. The DSUs vest over the calendar year of service for which the annual director’s fees relate. The Corporation recognizes a liability for the vested portion based on the period end trading price of the Corporation’s shares with changes in the liability recognized as share-based payments.

The following activity occurred during the three months ended March 31, 2013:

	Number of DSUs
Outstanding, at December 31, 2012	-
Granted	479,221
Outstanding at March 31, 2013	479,221

d) Loss Per Share

Excluded from the loss per share calculation for the period ended March 31, 2013 are 4,957,000 outstanding stock options as they are currently anti-dilutive due to the Corporation's loss position.

6. Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Cash and cash equivalent balances at March 31, 2013 are primarily comprised of cash on deposit with banks and therefore the face value of the investments plus interest received to date is the estimated fair value of the financial instrument. The Corporation's accounts receivable, accounts payable and accrued liabilities are short term in nature and therefore their carrying amounts approximate fair value.

7. Flow-Through Shares Commitment

In October 2012, the Corporation issued 3,200,000 flow-through common shares for gross proceeds \$4.0 million which was required to be spent on eligible expenditures prior to December 31, 2012. As of March 31, 2013, the Corporation had spent the full amount on eligible expenditures.

8. Supplemental Cash Flow Information

Supplemental cash flow disclosure follows:

For the Three Months ended March 31, 2013
(Stated in thousands of dollars)

Changes in non-cash working capital items:	
Increase in accounts receivable	\$ (623)
Increase in prepaid expenses	(71)
Increase in accounts payable and accrued liabilities	5,694
Net change in non-cash working capital items	\$5,000
Changes in non-cash working capital relating to:	
Operations	\$ (875)
Investing	5,875
	\$5,000

CORPORATE INFORMATION

DIRECTORS

Donald R. Ingram, FCMA
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West Face Capital Inc.
Toronto, Ontario, Canada

Bonnie D. DuPont
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Howard J. Lutley, P. Eng.
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OFFICERS

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Philip Aldred
Vice President, Resources

J. Cam Bateman
Vice President, Projects

Michael Stevens
Vice President & Chief Financial Officer

Dan McLeod
Corporate Secretary
Blake, Cassels & Graydon LLP

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