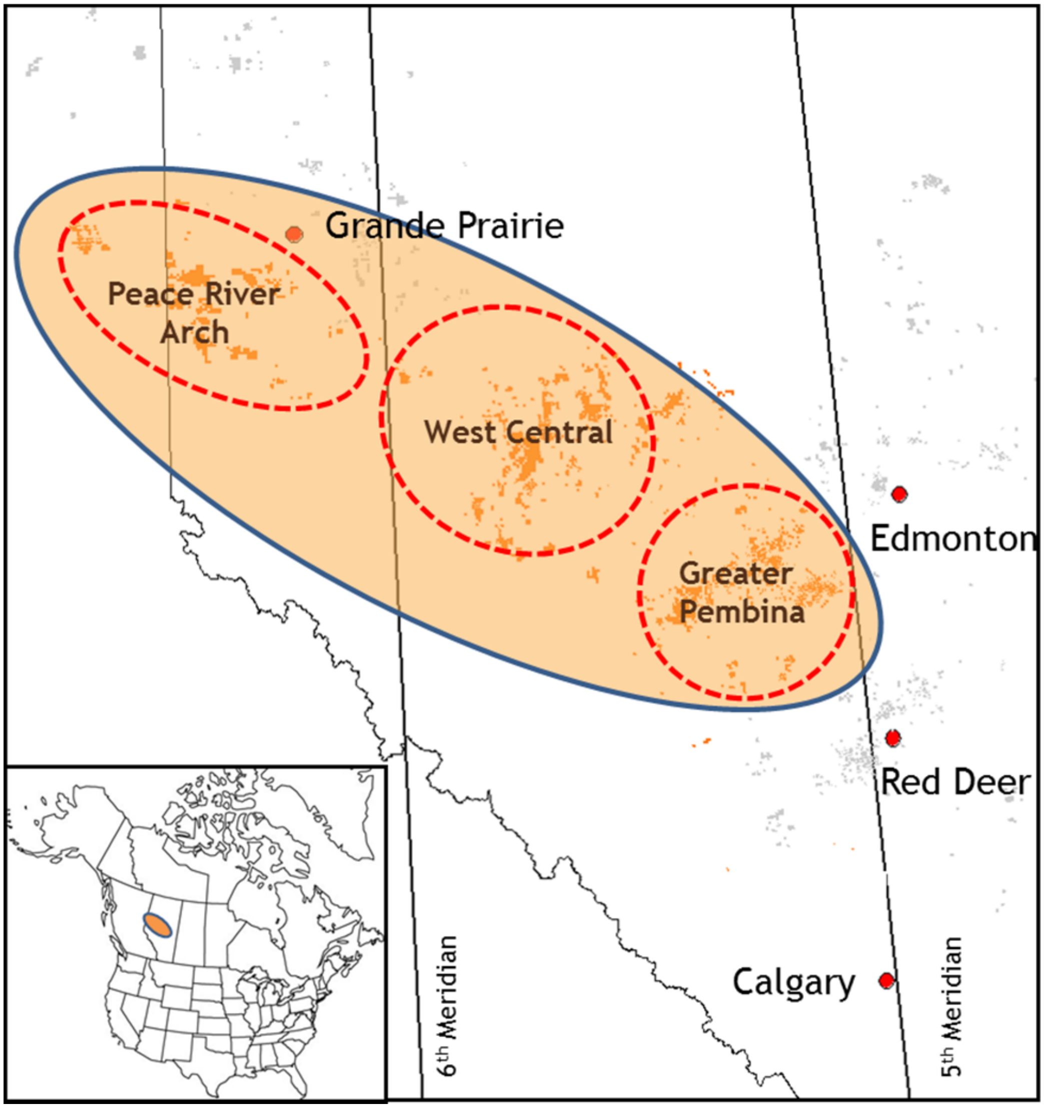
2012 Annual Report

Operating Areas



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Message to Stakeholders

We are pleased to report on what has been an exciting and transformative year at Sinopec Daylight. Following the December 2011 acquisition of Daylight Energy Ltd. by Sinopec International Petroleum Exploration and Production Corporation (SIPC), we have spent the past year advancing our oil and liquids-rich natural gas exploration and development opportunities and executing our long-term growth strategy in western Canada.

In 2012, Sinopec Daylight forged ahead with a capital budget of $887.7 million, inclusive of land and property acquisitions. During 2012, we increased our proved plus probable reserves by 26.8% to approximately 222 MMboe and reached record peak production rates in excess of 54,000 boe/d. We were able to expand our assets in our core areas, including increases to our Montney position in the Wapiti area, our position in the highly prospective liquids-rich Duvernay play, and our core oil development at Pembina. Partnering with Sinopec, a leading international energy corporation, has expanded the network and scope of available financial and other resources from which we draw upon, including the expertise of the Petroleum Exploration and Production Research Institute of Sinopec (PEPRIS), Sinopec's integrated research and engineering institute.

We're also proud that the benefits of SIPC's investment have extended beyond Sinopec Daylight's bottom line. At December 31, 2012, Sinopec Daylight had 321 full-time employees, which represented an increase of nearly 12 percent from December 31, 2011. While our increased capital program has created employment opportunities within our company, we also deployed nearly $545 million in drilling, completion and recompletion costs in 2012, which creates jobs for our suppliers and vendors here in Canada. The stability of our capital programs has also spurred innovation at Sinopec Daylight and made us industry leaders for solutions which provide for more efficient, lower-impact resource development in our operating areas. One such advancement in 2012 was the construction of our "Super Pad", an industry leading development in the Western Canadian Sedimentary Basin (WCSB), which allows Sinopec Daylight to capture synergies in the drilling, completion, and tie-in of up to 27 wells from a single location and the coordination of related supplies and services. This Super Pad development has reduced our overall land usage footprint by over 87%. We also continued with our dedication to giving back to the public and supporting initiatives in the communities where we operate, as detailed later in this report, with community and charitable spending exceeding $550,000 in 2012.

While much has changed at Sinopec Daylight in this past year, some key elements have stayed the same. The majority of Sinopec Daylight's senior management team has remained in place, whose experience in oil and gas acquisition, development and operations continues to be relied upon by SIPC to execute Sinopec Daylight's strategic vision. To that end, the day-to-day decision-making authority for our company remains in the hands of local management and staff with a longstanding track record of success in the geographical area of Sinopec Daylight's key producing assets. While we are now privately-held, our corporate governance structure and practices have remained consistent from our time as a publicly-traded company, and we continue to look to industry "best practices" whenever possible in formulating our policies and procedures to ensure the effective and appropriate functioning of our organization.

Looking ahead, we believe we are well-positioned to respond to the challenges currently facing the Canadian oil and gas industry and are confident that our strong performance will continue into 2013. Our achievements in 2012 would not have been possible without the hard work and dedication of our employees, who have been instrumental in creating and supporting the corporate culture that continues to make Sinopec Daylight a success. We look forward to what we will accomplish at Sinopec Daylight in 2013.

Sinopec Daylight's Board of Directors and Management team members are committed to the highest standards of corporate governance. We employ a variety of policies, programs and practices to manage corporate governance, which are regularly reviewed to ensure their appropriateness for a corporation of Sinopec Daylight's size and structure.

Governance Policies

Sinopec Daylight has several key governance policies which facilitate and ensure an ethical and honest business environment, and compliance with applicable laws, rules and regulations. Compliance with Sinopec Daylight's Code of Business Conduct and Ethics (the "Code") is certified by each employee, officer and consultant at the commencement of their employment and annually thereafter. The Board has also adopted a Whistleblower Policy and Procedure (the "Whistleblower Policy") which provides an opportunity for employees, service providers and third parties to report any perceived violations or concerns on a confidential and (if the employee desires) anonymous basis directly to the Chair of the Corporate Governance Committee, an "independent" director within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101"). Copies of the Code, the Whistleblower Policy and Sinopec Daylight's other corporate governance policies are available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Written Position Descriptions

Sinopec Daylight has developed written position descriptions and terms of reference for the Board Chair, the Chair of each Committee of the Board, and the Chief Executive Officer. The full text of these documents is available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

The Board of Directors

The Board is responsible for the effective stewardship of Sinopec Daylight and oversees its business and affairs through review and approval of Sinopec Daylight's strategic, operating, capital and financial plans. The full mandate of the Board is available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Composition of the Board and Independence

Our articles require us to have between one and eleven directors on our Board. Subject to our articles, the Board is entitled to determine the number of directors from time to time. Sinopec Daylight is also subject to certain legislative and regulatory requirements to have a certain percentage of "Canadian" directors as well as a certain number of directors who are "independent" within the meaning of NI 58-101.

For a director to be considered independent, the Board must determine that the director does not have any material relationship with Sinopec Daylight, either directly or indirectly, which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director’s independent judgment.

The Board has determined that Messrs. Laffin and Orman are "independent" for the purposes of Sinopec Daylight’s Corporate Governance practices and applicable regulatory standards. In determining that each of Messrs. Laffin and Orman is independent and does not have any material relationship with Sinopec Daylight, either directly or indirectly, which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director’s independent judgment, the Board has affirmatively determined that each such director:

- is not and has not been within the past three years an employee or executive officer (and no immediate family member of the director is or has been within the past three years an executive officer of) Sinopec Daylight;

- has not received (and no immediate family member of the director has received) more than Cdn. $75,000 per year in direct compensation from Sinopec Daylight, other than director and Committee fees and other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) during any 12-month period within the past three years;
- is not a current partner or employee of KPMG LLP, our external auditors, nor within the past three years has been a partner or employee of KPMG LLP who personally worked on Sinopec Daylight's audit during that time (and no immediate family member of the director is a current partner of KPMG LLP or is a current employee of KPMG LLP who participates in that firm's audit, assurance, or tax compliance practice or within the past three years was a partner or employee of KPMG LLP who personally worked on Sinopec Daylight's audit during that time);
- is not and has not been within the past three years (and no immediate family member of the director is or has been within the past three years) employed as an executive officer of another company where any of Sinopec Daylight's present executive officers at the same time serve or has served on that other company's compensation committee; and
- is not and has not been an executive officer or an employee (and no immediate family member of the director is or has been an executive officer) of an entity that has made payments to, or received payments from, Sinopec Daylight for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of U.S. $1,000,000 or 2% of such other entity's consolidated gross revenues.

2012 Board Meetings

There were four meetings of the Board in 2012, two of which were held in Canada and two of which were held in China.

Members	**2012 Meeting Attendance**
Hou Hongbin (Chairman)	4/4
Anthony Lambert	4/4
Wu Chengliang (1)	2/4
Deng Hanshen	3/4
Michael Laffin (2)	3/4 (3)
Zhang Lianhua	4/4
Rick Orman (2)	4/4
Yin Pengfei	4/4
Cameron Proctor	4/4 (3)

(1) Mr. Wu resigned from the Board effective March 21, 2013.

(2) Independent Director

(3) Messrs. Laffin and Proctor were appointed to the Board effective February 22, 2012 and therefore were not Directors in attendance at the Board Meeting on January 10, 2012. Mr. Proctor attended this meeting in his capacity as Corporate Secretary.

At each meeting, the Board of Directors hold an in camera session absent Messrs. Lambert and Proctor, both of whom are members of Management.

Committees of the Board

The Board fulfills its mandate, in part, through three standing subcommittees, each with a clearly defined charter. These are the Audit Committee, the Corporate Governance Committee and the Environment, Health & Safety and Reserves Committee. The full text of the Sinopec Daylight's current committee charters and terms of reference for each of the Committee Chairs are available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Audit Committee

Sinopec Daylight's Audit Committee assists the Board in fulfilling its oversight and supervision of the accounting and financial reporting practices and procedures of Sinopec Daylight, the adequacy of Sinopec Daylight's internal accounting controls and procedures, the application of accounting and reporting policies and all changes in accounting principles and policies, and the quality and integrity of Sinopec Daylight's financial statements. In addition, the Audit Committee is responsible for meeting with and directing Sinopec Daylight's independent auditor's examination of specific areas, as well as overseeing Sinopec Daylight's compliance with governmental and legal requirements as they relate to the Audit Committee or financial related matters. The Audit Committee annually appoints Sinopec Daylight's external auditor and actively monitors the relationship among the external auditors, Management and the Audit Committee. This process includes the monitoring of financial risk management, including hedging activities, debt covenant compliance, and insurance programs relating to property and to directors' and officers' liability.

There were three meetings of the Audit Committee in 2012.

Members	2012 Meeting Attendance
Wu Chengliang (Chair) (1)	1/3
Michael Laffin (2)	3/3
Zhang Lianhua	3/3
Rick Orman (2)	3/3
Yin Pengfei	3/3

(1) Mr. Wu resigned from the Board and all Committees effective March 21, 2013.

(2) Independent Director

The Audit Committee Mandate and Terms of Reference and the Terms of Reference for the Audit Committee Chair are available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Corporate Governance Committee

Sinopec Daylight's Corporate Governance Committee assists the Board in reviewing, formulating and making recommendations in respect of the Board and Sinopec Daylight's corporate governance practices, which include: (i) reviewing, on an at least annual basis, the mandates of the Board and its committees and recommending to the Board such amendments to those mandates as the committee believes are necessary or desirable; (ii) establishing a forum to consider concerns of individual directors in respect of matters that are not readily or easily discussed in a full Board meeting, including the performance of management or individual members of management or the performance of the Board or individual members of the Board; and (iii) establishing, reviewing and updating periodically, the Code of Business Conduct and Ethics and ensure that management has established a system to monitor compliance with this Code. In addition, the Corporate Governance Committee regularly assesses the composition and needs of the Board based on a variety of criteria, and is responsible for monitoring Sinopec Daylight's compliance with the undertakings pursuant to the

Investment Canada Act.

There were two meetings of the Corporate Governance Committee in 2012.

Members	2012 Meeting Attendance
Michael Laffin (Chair) [(2)]	2/2
Wu Chengliang [(1)]	0/2
Deng Hansen	2/2
Zhang Lianhua	2/2
Rick Orman [(2)]	2/2

(1) Mr. Wu resigned from the Board and all Committees effective March 21, 2013.
(2) Independent Director

The Corporate Governance Committee Mandate and Terms of Reference and the Terms of Reference for the Corporate Governance Committee Chair are available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Environment, Health & Safety and Reserves Committee

Sinopec Daylight's Environment, Health & Safety and Reserves Committee assists the Board in meeting their responsibilities in respect of their legal, regulatory, industry and community obligations pertaining to the areas of health, safety and the environment. This includes: (i) reviewing and making recommendations to our Board on fundamental policies pertaining to environment, health and safety having the potential of impacting Sinopec Daylight's activities and strategies; (ii) reviewing emergency response plans; and (iii) reviewing our performance with respect to applicable laws and the practices of Sinopec Daylight and Sinopec.

Additionally, the Committee is responsible for proper reporting and compliance with respect to Sinopec Daylight's reserves under National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). This includes: (i) reviewing management's recommendations for the appointment of the independent reserves evaluator; (ii) reviewing the terms of the independent reserves evaluator's engagement and the appropriateness and reasonableness of the proposed fees; (iii) reviewing the scope and methodology of the independent engineers' evaluation; (iv) reviewing any significant new discoveries, additions, revisions and acquisitions; (v) reviewing assumptions and consistency with prior years; and (vi) reviewing any problems experienced by the independent reserves evaluator in preparing the reserve report, including any restrictions imposed by management or significant issues on which there was a disagreement with management.

There were two meetings of the Environment, Health & Safety and Reserves Committee in 2012.

Members	2012 Meeting Attendance
Rick Orman (Chair) [(1)]	2/2
Deng Hanshen	2/2
Michael Laffin [(1)]	2/2
Zhang Lianhua	2/2
Yin Pengfei	2/2

(1) Independent Director

The Environment, Health & Safety and Reserves Committee Mandate and Terms of Reference and the Terms of Reference for The Environment, Health & Safety and Reserves Committee Chair are available on our website under "Responsibility – Corporate Governance" at www.sinopecdaylight.com.

Orientation and Continuing Education

Upon joining the Board, new directors are provided with an information binder that includes a copy of Board and Committee mandates, corporate policies, governance documents and organizational structure charts, as well as agendas and minutes for Board and Committee meetings held during the preceding twelve-month period. This information binder also includes legal information with respect to the statutory and legal framework of a director's fiduciary duty, the regulatory framework applicable to Sinopec Daylight and the Board, and highlights the legal and other resources available to the Board. In addition, new directors receive presentations with respect to Sinopec Daylight's operations, internal controls over financial reporting and disclosure controls and procedures.

As part of continuing education, the Board receives quarterly presentations from senior management with respect to the operations and risks of Sinopec Daylight's business, commentary on commodity outlooks and trends, and updates from the Chief Legal Officer regarding legislative, governance and regulatory matters which affect Sinopec Daylight. Individual directors identify their continuing educational needs through a variety of means, including discussions with management and at Board and Committee meetings.

Corporate Responsibility

Sinopec Daylight adheres to a strong set of corporate principles focused on accountability, cooperation and integrity, and is committed to operate in ways that are safe, environmentally responsible and with the utmost regard for our stakeholders. We strive to ensure that all regulatory requirements are met or exceeded and that effective response measures and capabilities are in place to respond to all unforeseen events.

Health and Safety

The health and safety of employees, contractors, visitors and the public is of paramount concern to Sinopec Daylight, and we believe that management, employees and contractors all share accountability for providing the leadership and direction needed to effectively manage health and safety programs. We are committed to an integrated Health and Safety management system where effective policies are implemented, communicated and monitored, and where each employee, contractor and subcontractor understands our expectations and is trained and competent in the skills necessary to carry out their job functions.

We communicate near miss, hazard identification and recordable incident summaries with corrective action recommendations to representatives across the organization to help determine potentially unsafe situations and prevent accidents. Our model of establishing long-term relationships with contractors and vendors helps create a culture of shared safety values where compliance with our rules of work can be successfully monitored and enforced. Additionally, we carry out regular inspections on our operating facilities and lease sites to ensure the integrity of our systems and operations.

We also perform regular emergency response training exercises, tailored to the demands of our specific operating areas, to prepare our personnel should an unlikely emergency situation arise. Sinopec Daylight is committed to communicating openly with members of the public regarding our activities and our emergency response plans incorporate feedback we have received from the communities in which we operate.

Environment

We endeavour to minimize our environmental footprint and focus on maintaining the quality of the environment for future generations. While we understand our operations may have an effect on the environment, we are proactive and strategic in our approach to environmental management.

Sinopec Daylight is a leading contributor and is on the Board of Directors for the Pembina Sentinel Air Monitoring Society (PSAMS). PSAMS is a non-profit organization sponsored by area oil and gas operators whose membership also includes area residents and government agencies. The information gathered through the PSAMS network of monitors and area infrastructure in the Pembina area is made available to the public at www.pembinaairmonitoring.com. In addition, our President and Chief Executive Officer is a member of the Canadian Association of Petroleum Producers Board of Governors, whose mandate is to enhance the economic sustainability of the Canadian upstream petroleum industry in a safe and environmentally and socially responsible manner, through constructive engagement and communication with governments, the public and stakeholders in the communities in which we operate.

Through our Future Emissions Management Program, Sinopec Daylight manages fugitive emissions with specialized infrared optical thermal imaging. Together with a unique online data management system, the technology is designed to locate hydrocarbon gas leaks and venting, which provides for safe, accurate detection and measurement of emissions which facilitates compliance with internal company and regulatory requirements.

We also manage our environmental responsibilities through the proactive abandonment and reclamation of our facilities, wells and leases. At the end of 2012, Sinopec Daylight had 338 former facility or well sites under active surface remediation. During 2012, we received ten reclamation certificates.

Community Investment

Sinopec Daylight is committed to making a positive impact in the areas where we live and work. We believe that our operations should also benefit the communities in which we operate and we actively seek out opportunities for charitable giving and partnerships that respond to the needs of those communities.

In addition to corporate opportunities, we celebrate the awareness of our dedicated and generous employees who give back their time and money in a meaningful way and help promote the importance of volunteerism. This is accomplished through the *Sinopec Daylight Shines Community Investment Program*, which is made up of two principal components:

i) The Two Hands Program

For every one hour (to a maximum of 250 hours per year) that an employee and/or their family actively volunteers their personal time for approved charities or established not-for-profit community organizations, Sinopec Daylight will give $10.00 in a charitable giving account for that employee to gift to the registered charity of their choice.

ii) The Two Times Program

Sinopec Daylight will support employees and families by matching their donations dollar-for-dollar to approved charities or established not-for-profit organizations of their choice.

In 2012, Sinopec Daylight contributed approximately $550,000 to not-for-profit groups throughout Calgary and our field communities. Many of these contributions have focused on youth initiatives targeting education and health and wellness programs. The following is a sample of our partnerships and major donations:

Wood's Homes

Wood's Homes is a community owned and operated children's mental health centre based in Calgary and operating throughout Alberta which allows children and their family the opportunity to reach their potential and improve their quality of life. In 2012, Sinopec Daylight contributed approximately $185,000 to Wood's Homes and has contributed nearly $450,000 through various sponsorships and fundraising efforts since 2009.

The Alberta Children's Hospital Foundation

The Alberta Children's Hospital Foundation raises funds for excellence in child health, research and family-centered care. Sinopec Daylight contributed approximately $180,000 to the Alberta Children's Hospital Foundation in 2012 in conjunction with multiple events, including the 2012 Oilympic Hockey Marathon and the Caring for Kids Radiothon.

Jamie's Pre-School

Jamie’s Preschool provides a rich program of play, learning and support for children facing cancer, blood disorders and other critical illness. Jamie’s Pre-School is an independent charity and is one of North America’s only early childhood education programs that serve immune-compromised children. In 2012, Sinopec Daylight contributed approximately $54,000.

Humans Helping Humans, Drayton Valley

The Humans Helping Humans Housing Foundation is a community-driven, affordable housing initiative born in the Town of Drayton Valley. The foundation provides assistance for low to medium income families who have fallen on hard times. Sinopec Daylight contributed approximately $110,000 to the initiative in 2011.

Schulich School of Engineering, University of Calgary

In 2011, Sinopec Daylight gifted $400,000 to University of Calgary's Schulich School of Engineering to support the Sinopec Daylight Energy Ltd. Lecture Theatre.

Southern Alberta Institute of Technology (SAIT)

In 2011, Sinopec Daylight gifted $400,000 to SAIT to support the Chemical Engineering Technology Lab.

The following is the Management Report (the "Report") for Sinopec Daylight Energy Ltd. (the "Company" or "Sinopec Daylight") for the year ended December 31, 2012 and the period from incorporation on October 18, 2011 to December 31, 2011. The Company was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") on October 18, 2011 as 1635905 Alberta Ltd. Pursuant to a plan of arrangement (the "Arrangement") completed in accordance with the provisions of the ABCA, effective December 23, 2011, 1635905 Alberta Ltd. acquired: (i) all of the issued and outstanding common shares of Daylight Energy Ltd. ("Daylight") for cash consideration of approximately $2.2 billion; and (ii) all of Daylight's issued and outstanding 6.25% series D convertible unsecured subordinated debentures ("Series D Debentures") for a cash price of $1,110 per $1,000 principal amount of Series D Debentures, plus accrued and unpaid interest to the closing date, totaling $196.6 million. In connection with the Arrangement, 1635905 Alberta Ltd. and Daylight amalgamated to form Sinopec Daylight, which carries on the business formerly conducted by Daylight.

Mission

Sinopec Daylight is actively engaged in the business of oil and gas exploration, exploitation, development and production in the provinces of Alberta, British Columbia and Saskatchewan. Sinopec Daylight is committed to the development of its assets in a manner which reflects commitment to our social, safety and environmental responsibilities in the communities we operate in.

Long-Term Goals

- Develop resource plays in the Western Canadian Sedimentary Basin.
- Enhance capital and operational efficiency through effective asset management.
- Manage risks associated with the oil and gas industry.

Description of our Business and Operations

Sinopec Daylight's exploration, exploitation and development program is focused primarily in three core areas:

- Pembina, where we are developing significant oil resource plays and liquids rich natural gas resource plays;
- Peace River Arch, where we are developing multi-zone natural gas resource plays focused primarily on the Montney zone; and
- West Central Alberta, where we are developing liquids rich natural gas resource plays.

In addition, Sinopec Daylight is actively pursuing an exploration drilling program focused primarily on the Duvernay shale play in the Pembina and West Central areas of Alberta which the Company believes are prospective for oil and liquids-rich natural gas. Sinopec Daylight is an indirect wholly-owned subsidiary of Sinopec International Petroleum Exploration and Production Corporation ("SIPC"), which is in turn a subsidiary of China Petrochemical Corporation ("CPC"), a state-owned enterprise of the Government of the People's Republic of China.

Disclosure of Reserves Data

The reserves data set forth below (the "Reserves Data") is based upon an independent evaluation by Sproule Associates Limited ("Sproule") with an effective date of December 31, 2012 contained in the Sproule reserve report ("Sproule Report") dated December 20, 2012. The opening reserves balances represent the reserves for Sinopec Daylight at December 31, 2011. The Reserves Data summarizes the crude oil, natural gas liquids and natural gas reserves of the Company and the net present values of future net revenue for these reserves using forecast prices and costs. The Sproule Report has been prepared in accordance with the standards contained in the COGE Handbook and NI 51-101. We engaged Sproule to provide an evaluation of proved and proved plus probable reserves and no request was made to evaluate possible reserves.

All of Sinopec Daylight's reserves are in Canada, and specifically in the provinces of Alberta and British Columbia.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of Sinopec Daylight's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Abbreviations and Conversions

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta Transmission System (NOVA) which is the delivery point for the various Alberta index prices
API	American Petroleum Institute
°API	measure of the density or gravity of liquid petroleum products derived from a specific gravity
Bbl	barrel
Bbl/d	barrels per day
Bcf	billion cubic feet
boe	barrels of oil equivalent converting 6 Mcf of natural gas or one barrel of natural gas liquids to one barrel of oil equivalent
boe/d	barrels of oil equivalent per day
GJ	Gigajoule
MBbl	one thousand barrels
Mboe	one thousand barrels of oil equivalent
MMboe	one million barrels of oil equivalent
Mcf	one thousand cubic feet
m^3	cubic meters
Mcf/d	one thousand cubic feet per day
MMBtu	one million British Thermal Units
MMcf	one million cubic feet
MMcf/d	one million cubic feet per day
MMBbl	one million barrels
M$	one thousand dollars
MM$	one million dollars
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil that serves as the benchmark crude oil for the NYMEX crude oil contract delivered in Cushing, Oklahoma

Reserves Information

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
cubic meters	cubic feet	35.315
Mcf	cubic meters	28.174
Bbl	cubic meters	0.159
cubic meters	Bbl	6.290
Feet	Meters	0.305
Meters	Feet	3.281
Miles	Kilometers	1.609
Kilometers	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

Summary of Reserves

The following tables summarize, as at December 31, 2012, Sinopec Daylight's oil, natural gas liquids and natural gas reserves and the estimated net present values of future net cash revenues associated with such reserves, together with certain information, estimates and assumptions associated with such reserve estimates, as contained in the Sproule Report. The data contained in the tables set out below is a summary of the evaluations, and as a result, the numbers in the tables may not add due to rounding.

Reserves	**Light and Medium Oil**		**Heavy Oil**		**Natural Gas**	
	Gross *(MBbl)*	**Net** *(MBbl)*	**Gross** *(MBbl)*	**Net** *(MBbl)*	**Gross** *(MMcf)*	**Net** *(MMcf)*
Proved						
Developed producing	14,303	11,704	252	222	209,178	186,560
Developed non-producing	2,125	1,483	30	25	20,300	18,090
Undeveloped	9,707	8,175	72	62	235,154	217,625
Total Proved	26,135	21,362	353	309	464,632	422,274
Probable	14,589	11,082	135	114	445,311	403,776
Total proved plus probable	**40,723**	**32,444**	**488**	**424**	**909,943**	**826,050**

Reserves	**Coalbed Methane**		**Natural Gas Liquids**		**Total**	
	Gross *(MMcf)*	**Net** *(MMcf)*	**Gross** *(MBbl)*	**Net** *(MBbl)*	**Gross** *(Mboe)*	**Net** *(Mboe)*
Proved						
Developed producing	445	429	7,514	5,312	57,005	48,403
Developed non-producing	172	164	534	407	6,101	4,958
Undeveloped	-	-	8,296	6,300	57,267	50,808
Total Proved	617	593	16,344	12,020	120,373	104,169
Probable	1,730	1,647	12,727	9,215	101,958	87,981
Total proved plus probable	**2,347**	**2,240**	**29,071**	**21,234**	**222,331**	**192,151**

Net Present Value of Future Net Revenue (before income taxes)

(000s) discounted at	0%	5%	10%	15%	20%
Proved					
Developed producing	$ 1,420,568	$ 1,197,707	$ 1,013,475	$ 880,486	$ 782,572
Developed non-producing	165,575	132,288	109,160	92,084	78,937
Undeveloped	788,287	377,386	152,098	19,452	(62,930)
Total Proved	2,374,431	1,707,381	1,274,733	992,022	798,579
Probable	2,386,525	1,255,912	743,393	471,077	310,094
Total proved plus probable	**$ 4,760,956**	**$ 2,963,293**	**$ 2,018,126**	**$ 1,463,098**	**$ 1,108,673**

Net Present Value of Future Net Revenue (after income taxes)

(000s) discounted at	0%	5%	10%	15%	20%
Proved					
Developed producing	$ 1,420,568	$ 1,197,707	$ 1,013,475	$ 880,486	$ 782,572
Developed non-producing	165,575	132,288	109,160	92,084	78,937
Undeveloped	788,287	377,386	152,098	19,452	(62,930)
Total Proved	2,374,431	1,707,381	1,274,733	992,022	798,579
Probable	1,811,878	978,349	595,646	386,647	259,195
Total proved plus probable	**$ 4,186,309**	**$ 2,685,731**	**$ 1,870,378**	**$ 1,378,669**	**$ 1,057,774**

Future Net Revenue (undiscounted)

(000s)	Revenue	Royalties	Operating Costs	Development Costs	Abandon-ment and Reclamation Costs	Future Net Revenue Before Income Taxes	Future Income Taxes	Future Net Revenue After Income Taxes
Proved								
Developed producing	$ 3,287,896	$ 460,211	$ 1,372,322	$ 2,245	$ 32,550	$ 1,420,568	$ -	$ 1,420,568
Developed non-producing	348,029	74,974	81,684	24,474	1,322	165,575	-	165,575
Undeveloped	3,101,682	369,871	987,639	942,828	13,056	788,287	-	788,287
Total Proved	6,737,607	905,056	2,441,645	969,547	46,928	2,374,431	-	2,374,431
Probable	5,805,330	807,294	1,902,734	691,195	17,582	2,386,525	574,647	1,811,878
Total proved plus probable	**$12,542,937**	**$ 1,712,351**	**$ 4,344,379**	**$ 1,660,742**	**$ 64,510**	**$ 4,760,956**	**$ 574,647**	**$ 4,186,309**

Future Net Revenue by Production Group (discounted at 10%)		Future Net Revenue before Income Taxes *(000s)*	Unit Value[3] *($/boe or $/Mcf)*
Proved			
Light and medium crude oil[1]	$	602,796	22.69
Heavy oil[1]		6,901	18.89
Coalbed methane		566	5.70
Natural gas[2]		649,209	8.42
Other Revenue		15,261	-
Total Proved	**$**	**1,274,733**	**12.24**
Proved plus probable			
Light and medium crude oil[1]	$	822,987	20.57
Heavy oil[1]		9,065	18.46
Coalbed methane		515	1.37
Natural gas[2]		1,159,247	7.66
Other Revenue		26,312	-
Total Proved plus probable	**$**	**2,018,126**	**10.50**

(1) Including solution gas and other by-products
(2) Including by-products but excluding natural gas from oil wells
(3) Calculated using net oil or net gas reserves and forecast prices and cost assumptions

Pricing Assumptions

The forecast cost and price assumptions include increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. The estimated future net revenue to be derived from the production of the reserves includes an inflation rate assumption of 2.0% per year together with the following price forecasts supplied by Sproule.

Year	West Texas Intermediate Crude Oil *($US/Bbl)*	Edmonton par Crude Oil *($Cdn/Bbl)*	Natural Gas At AECO *($Cdn/MMbtu)*	Foreign Exchange *($US/$Cdn)*
2012 (1 month estimate)	85.93	86.10	3.39	0.998
2013	88.57	88.74	3.60	0.998
2014	88.75	88.92	3.90	0.998
2015	88.24	88.40	4.09	0.998
2016	99.37	99.56	4.93	0.998
2017	101.35	101.55	5.60	0.998
2018	103.38	103.58	5.72	0.998
2019	105.45	105.65	5.84	0.998
2020	107.56	107.76	5.96	0.998
2021	109.71	109.92	6.09	0.998
2022 Escalation of 2% thereafter	111.90	112.12	6.22	0.998

Weighted average historical prices realized by Sinopec Daylight for the year ended December 31, 2012 were $2.50 per Mcf for natural gas, $83.37 per Bbl for light oil and $52.79 per Bbl for NGLs.

Reserves Reconciliation

Reconciliation of Gross Reserves

	Light and Medium Oil			Heavy Oil		
	Proved *(MBbl)*	**Probable** *(MBbl)*	**Proved plus Probable** *(MBbl)*	**Proved** *(MBbl)*	**Probable** *(MBbl)*	**Proved plus Probable** *(MBbl)*
December 31, 2011	19,720	13,922	33,643	519	174	692
Extensions and improved recovery	1,349	(465)	884	-	-	-
Infill Drilling	6,661	2,942	9,602	-	-	-
Technical revisions	2,024	(1,914)	110	(77)	(40)	(117)
Acquisitions	15	1	16	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	311	102	413	(5)	1	(4)
Production	(3,945)	-	(3,945)	(84)	-	(84)
December 31, 2012	**26,135**	**14,589**	**40,724**	**353**	**135**	**488**

Reconciliation of Gross Reserves

	Associated and Non-Associated Gas			Natural Gas Liquids		
	Proved *(MMcf)*	**Probable** *(MMcf)*	**Proved plus Probable** *(MMcf)*	**Proved** *(MBbl)*	**Probable** *(MBbl)*	**Proved plus Probable** *(MBbl)*
December 31, 2011	350,571	378,971	729,542	9,431	9,612	19,043
Extensions and improved recovery	32,902	40,679	73,581	1,683	2,000	3,683
Infill Drilling	40,674	28,596	69,269	2,171	905	3,076
Technical revisions	44,661	(57,681)	(13,019)	2,701	(2,667)	33
Acquisitions	53,809	59,441	113,250	2,654	2,958	5,612
Dispositions	(55)	(984)	(1,039)	(1)	(1)	(2)
Economic factors	(3,613)	(3,711)	(7,324)	(8)	(79)	(86)
Production	(54,317)	-	(54,317)	(2,288)	-	(2,288)
December 31, 2012	**464,632**	**445,311**	**909,943**	**16,344**	**12,727**	**29,071**

Reconciliation of Gross Reserves	Coalbed Methane			Oil Equivalent		
	Proved (MMcf)	Probable (MMcf)	Proved plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved plus Probable (Mboe)
December 31, 2011	1,489	1,154	2,643	88,347	87,062	175,409
Extensions and improved recovery	-	-	-	8,516	8,315	16,831
Infill Drilling	-	-	-	15,611	8,612	24,223
Technical revisions	(93)	770	677	12,076	(14,106)	(2,030)
Acquisitions	-	-	-	11,637	12,866	24,503
Dispositions	-	-	-	(10)	(165)	(175)
Economic factors	(653)	(193)	(847)	(413)	(626)	(1,039)
Production	(126)	-	(126)	(15,390)	-	(15,390)
December 31, 2012	**617**	**1,730**	**2,347**	**120,373**	**101,958**	**222,331**

Additional Information Relating to Reserves Data

Undeveloped Reserves

Undeveloped reserves are attributed by Sproule in accordance with standards and procedures contained in the COGE Handbook. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to place them on production. Probable undeveloped reserves are those reserves that are less certain to be recovered than proved reserves and are expected to be recovered from known accumulations where a significant expenditure is required to place them on production.

Nearly all of our proved undeveloped reserves fall within the following categories:

- wells budgeted and scheduled to be drilled from 2013 to 2016;
- wells drilled which require completion or have been completed and require equipping and tie-in during 2013 or 2014; and
- secondary zones that will be completed for production once the primary zone is depleted.

We do not intend to carry proved undeveloped reserves for long periods of time unless there is a good reason not to produce these reserves in the short term. Where there is sufficient economic justification, we intend to take steps to accelerate and enhance production. These steps could involve dually completing and/or re-drilling to twin wells for secondary zones.

About 25% of our probable reserves are attributed to better performance of reserves from producing wells. The remaining 75% results from identified step-out drilling locations, recompletions of existing wells and tie-in of additional reserves. While these assets do not yet meet the required confidence factor for a booking in the proved category, they are anticipated to be developed in the near term.

For the year ended December 31, 2012, $887.7 million was spent on capital expenditures including land and property acquisitions, net of dispositions. A portion of the 2013 development capital is planned to be used to convert proved undeveloped reserves and probable reserves into proved developed producing reserves. Allocating capital to properties and timing of development is based on the economics and performance of the respective properties.

We plan to continue pursuing development opportunities such as drilling, completions and facilities upgrades in order to convert proved undeveloped and probable reserves into proved developed producing reserves. In instances where land rights are expected to expire within one year, we may engage in farmout arrangements which would eliminate the potential expiry and possibly result in certain proved undeveloped and probable reserves becoming proved developed producing reserves.

There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals).

Proved Undeveloped Reserves

The following table discloses, for each product type, the volumes of current proved undeveloped reserves that were first attributed in each of the most recent three financial years and, in the aggregate, before that time. In the following table, "First Attributed" refers to reserves first attributed at year-end of the corresponding fiscal year.

Proved Undeveloped Reserves	**Light and Medium Oil**		**Heavy Oil**		**Natural Gas**	
	First Attributed *(MBbl)*	**Total at Year-end** *(MBbl)*	**First Attributed** *(MBbl)*	**Total at Year-end** *(MBbl)*	**First Attributed** *(MMcf)*	**Total at Year-end** *(MMcf)*
2009	1,171	1,700	-	1,286	58,356	80,920
2010	6,356	6,924	-	83	61,702	145,555
2011	3,068	7,144	-	83	35,029	138,001
2012	2,861	9,707	-	72	22,360	235,154

Proved Undeveloped Reserves	**Natural Gas Liquids**		**Oil Equivalent**	
	First Attributed *(MBbl)*	**Total at Year-end** *(MBbl)*	**First Attributed** *(Mboe)*	**Total at Year-end** *(Mboe)*
2009	664	778	11,561	17,251
2010	1,304	2,398	17,944	33,664
2011	969	3,157	9,875	33,384
2012	1,170	8,296	7,758	57,267

Approximately 65% of Sinopec Daylight's future capital associated with proved undeveloped reserves is scheduled for expenditure in 2013 and 2014. The major areas of development in 2013 and 2014 are the Brazeau, Warburg, Tomahawk, Elmworth, and Wapiti properties. The proved undeveloped reserves scheduled for development in 2013 and 2014 represent 61% of the total proved undeveloped reserves. The remaining proved undeveloped capital and reserves are primarily associated with the Oldman, Fox Creek, Medicine Lodge and Obed areas.

Probable Undeveloped Reserves

The following table discloses, for each product type, the volumes of current probable undeveloped reserves that were first attributed in each of the most recent three financial years and, in the aggregate, before that time. In the following table, "First Attributed" refers to reserves first attributed at year-end of the corresponding fiscal year.

Probable Undeveloped Reserves	Light and Medium Oil		Heavy Oil		Natural Gas	
	First Attributed (MBbl)	Total at Year-end (MBbl)	First Attributed (MBbl)	Total at Year-end (MBbl)	First Attributed (MMcf)	Total at Year-end (MMcf)
2009	1,049	1,940	237	915	66,849	98,106
2010	5,371	6,712	-	81	125,646	251,143
2011	4,130	8,478	-	81	71,178	288,042
2012	2,186	8,161	-	81	43,652	342,364

Probable Undeveloped Reserves	Natural Gas Liquids		Oil Equivalent	
	First Attributed (MBbl)	Total at Year-end (MBbl)	First Attributed (Mboe)	Total at Year-end (Mboe)
2009	1,910	2,374	14,338	21,580
2010	2,273	4,976	28,585	53,626
2011	2,744	6,820	18,737	63,386
2012	1,536	8,980	10,997	74,283

Approximately 46% of Sinopec Daylight's future capital associated with probable undeveloped reserves is scheduled for expenditure in 2013 and 2014. The major areas of development in 2013 and 2014 are the Brazeau, Tomahawk, Elmworth and Wapiti properties. The probable undeveloped reserves scheduled for development in 2013 and 2014 represent 46% of the total probable undeveloped reserves. The remaining probable undeveloped capital and reserves are primarily associated with the Jackpine, Medicine Lodge, Marlboro and Caroline areas.

Significant Factors or Uncertainties Affecting Reserves Data

The process of evaluating reserves is inherently complex and such evaluations are estimates only. Our reserves have been evaluated by Sproule, an independent engineering firm. The reserve evaluation process requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, geological evaluation, engineering data, prices and economic conditions. These factors and assumptions include among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves. As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative. High operating costs substantially reduce our netback, which in turn reduces the amount of cash available for reinvestment in drilling opportunities. This becomes most relevant during periods of low commodity prices when profits are more significantly impacted by high costs.

Our oil and gas properties have no material extraordinary risks or uncertainties beyond those which are inherent in other oil and gas producing companies.

Future Development Costs

The following table sets forth development costs deducted in the estimation of the future net revenue attributable to the reserve categories noted below.

Future Development Costs (undiscounted) *(000s)*	**Proved Reserves**	**Proved Plus Probable Reserves**
2013	$ 341,708	$ 431,452
2014	291,435	529,001
2015	143,940	276,549
2016	101,319	251,907
Remaining	91,145	171,833
Total	**$ 969,547**	**$ 1,660,742**

Future development costs are capital expenditures required in the future for us to convert proved non-producing reserves and probable reserves into proved developed producing reserves. We anticipate using a combination of internally generated cash provided by operating activities, and, as required, financing from SIPC and external sources to fund these future development costs. Sinopec Daylight has the support of its operating parent, SIPC, which provides financial support as required. Based on the commodity price and cost assumptions adopted for the forecast prices and costs case, all the expenditures included in the future development costs are economic as they enhance the net present values of the proved developed producing reserves.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth herein and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. We do not anticipate that interest or other funding costs would make development of any of these properties uneconomic.

Overview

Our operational strategies and activities are directed toward maximizing value over the long-term. We intend to utilize our extensive operating experience and employ prudent oil and natural gas business practices to increase value through development and optimization activities on both existing and acquired oil and natural gas properties. We expect to achieve this value creation through an active development program directed towards lower risk development, continuous optimization of our assets and active management of risk.

Optimization of our assets will take the form of debottlenecking, compression, installation or enhancement of artificial lift, water injection, fluid handling and fluid processing, facility optimization, and other activities. These activities are usually smaller projects with attractive rates of return given the limited capital investment required and rapid payback. We expect to use a variety of technical and operating experts, both internal and external, to achieve these results.

We currently focus our development activities in the Western Canadian Sedimentary Basin. Our development activities are expected to be funded by internally generated cash provided by operating activities, intercompany financing and external sources. We do not anticipate that the costs of funding these development activities will have a material effect on our disclosed oil and gas reserves or future net revenue attributable to those reserves.

Description of Principal Oil and Natural Gas Properties

The following is a description of the principal oil and natural gas properties in which we have an interest. Unless otherwise specified, production estimates, gross and net acres and well count information are as at December 31, 2012. Reserve amounts are stated, before deduction of royalties as at December 31, 2012, based on forecast cost and price assumptions as evaluated in the Sproule Report. **The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.**

Greater Pembina Area

The Greater Pembina area consists of Sinopec Daylight's Brazeau and Warburg properties. The Brazeau property is located approximately 145 kilometers southwest of Edmonton, Alberta near the community of Drayton Valley. Sinopec Daylight operates two significant facilities for the processing of sour oil and the compression of sour gas in the Brazeau area. The sour gas is shipped for final processing at four third-party midstream plants located in the neighbouring Brazeau River and West Pembina areas. The majority of reserves are associated with the Cardium and Nisku formations with additional reserves assigned to the Rock Creek, Ellerslie and Notikewan zones. Significant development of the Cardium zone with horizontal wells occurred during 2012 and is expected to continue in 2013. Proved plus probable reserves in the Sproule Report total 38.9 MMboe for our interests in this area at year end 2012.

The Warburg properties are located to the east of the Brazeau property, approximately 30 kilometers east of Drayton Valley. The Warburg area contains four significant sub-properties: Easyford, Tomahawk, Warburg, and Caroline and a number of minor properties. Sinopec Daylight operates two significant facilities for the processing of sour oil and the compression of sour gas and a number of sweet oil facilities in the Warburg area. The sour gas is shipped for final processing at two third-party midstream plants located in the neighbouring Bigoray and Minnehik-Buck Lake areas. The majority of reserves are associated with the Cardium, Nisku, and Belly River formations with additional reserves assigned to the Ellerslie and various other cretaceous zones. Significant development of the Cardium and Belly River zones with horizontal wells occurred during 2012 and is expected to continue in 2013. Proved plus probable reserves in the Sproule Report total 27.8 MMboe for our interests in this area at year end 2012.

Deep Basin Area

The Deep Basin area consists of Sinopec Daylight's Peace River Arch ("PRA") and West Central Alberta properties. The PRA properties are located in proximity to the City of Grande Prairie, in northwest Alberta. The PRA area contains three significant sub-properties: Elmworth, Wapiti, and Cecil and a number of minor properties. In Elmworth, reserves are developed with both vertical and horizontal gas wells and production is commingled from the Cadotte, Falher, Bluesky, Gething, Cadomin, and Nikanassin formations. In Wapiti, production is primarily from the Montney formation, which is being developed with horizontal wells. Sinopec Daylight has identified numerous additional Montney, Cadomin and Nikanassin horizontal and vertical well opportunities in the PRA area. Sproule has assigned total proved plus probable reserves of 117.1 MMboe to our interest in this area at year end 2012.

The West Central Alberta properties are located approximately 230 kilometers northwest of Edmonton, Alberta. The West Central area contains six significant sub-properties: Obed, Pine Creek, Marlboro, Medicine Lodge, Kaybob, and Chip Lake and a number of minor properties. Historically, the major producing formations in the West Central area were the prolific gas-charged Wabamun and Leduc reservoirs. In recent years, attention has focused on the shallower Montney, Notikewin, Bluesky, Gething and Wilrich zones. During 2012, development of the Bluesky, Cardium and Wilrich zones with multi-staged stimulated horizontal wells was undertaken with strong results. During 2013, horizontal well development of the Cardium, Bluesky, Montney and Wilrich formations is expected to continue. Sproule has assigned total proved plus probable reserves of 38.5 MMboe to our interests in this area at year end 2012.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which we had a working interest as at December 31, 2012. Although many wells produce both oil and natural gas, a well is categorized as an oil well or a natural gas well based upon the proportion of oil or natural gas production that constitutes the majority of production from that well.

Number and Status of Wells	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross(1)	Net	Gross	Net	Gross(1)	Net	Gross(1)	Net
Alberta	501	395.7	186	143.4	1,075	551.9	322	191.8
British Columbia	5	1.6	8	3.3	25	13.5	3	0.8
Saskatchewan	1	0.5	-	-	-	-	-	-
Total	507	397.8	194	146.7	1,100	565.4	325	192.6

(1) Gross wells include unit wells

Properties with no Attributed Reserves

The following table sets out our undeveloped land holdings as at December 31, 2012. Our undeveloped land holdings have no reserves attributed to them.

Undeveloped Land Holdings	Undeveloped Acres	
	Gross	Net
Alberta	949,150	793,962
British Columbia	80,227	50,539
Saskatchewan	18,459	18,459
Total	1,047,836	862,960

We expect that rights to explore, develop and exploit 100,000 net acres of our undeveloped land holdings will be subject to potential expiry within one year. We have no material work commitments on such properties and, where we determine appropriate, we may continue expiring leases by either making the necessary applications to extend or by performing the necessary work. Sinopec Daylight calculates gross undeveloped acres by including undrilled spacing units in each lease or license where we have a working interest. The net undeveloped acreage is calculated by multiplying the gross acreage by our working interest percentage.

Other Oil and Natural Gas Information

There are several economic factors and significant uncertainties that affect the anticipated development of Sinopec Daylight's properties with no attributed reserves. Sinopec Daylight will be required to make substantial capital expenditures in order to prove, exploit, develop and produce oil and natural gas from these properties in the future.

This Report should be read in conjunction with the accompanying audited consolidated financial statements and notes for the year ended December 31, 2012 and the period from incorporation on October 18, 2011 to December 31, 2011. The consolidated financial statements and other financial data presented have been prepared in accordance with *International Financial Reporting Standards* ("GAAP" or "IFRS"). All references are to Canadian dollars unless otherwise indicated.

NON-GAAP MEASURES

The Company utilizes the following terms for measurement that do not have standardized prescribed meanings under GAAP and these non-GAAP measurements may not be comparable with the calculation of similar measurements of other entities.

"Funds from Operations" is a term utilized by Sinopec Daylight to evaluate operating performance and assess leverage. All references to funds from operations throughout the Report are based on cash provided by operating activities before the change in non-cash operating working capital and decommissioning expenditures less interest expense and long-term incentive included in general and administrative expense. Funds from operations does not represent net income (loss) for the period nor should it be viewed as an alternative to net income (loss) or other measures of financial performance calculated in accordance with GAAP. Funds from operations is considered by management to be a more meaningful key performance indicator of Sinopec Daylight's ability to generate cash to finance operations. A reconciliation of cash provided by operating activities to funds from operations is set forth in the following table:

Funds from Operations *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Cash provided by operating activities	**$ 226,579**	$ 5,716
Change in non-cash operating working capital	**25,522**	2,114
Decommissioning expenditures	**19,635**	-
Interest expense	**(54,463)**	(1,979)
Long-term incentive included in general and administrative	**(7,342)**	-
Funds from operations	**$ 209,931**	$ 5,851

"Net Debt" is a term used by Sinopec Daylight to evaluate and monitor its liquidity and capital structure. Net debt is calculated as bank debt plus any working capital deficiency. Working capital deficiency is calculated excluding any unrealized gain or loss on financial instruments and any assets held for sale and their related decommissioning obligations.

"Debt to Capitalization" is a non-GAAP measure of the Company's overall financial strength utilized to monitor and measure the Company's total debt position. Debt is calculated as long-term debt plus any working capital deficiency. Capitalization is a non-GAAP measure defined as debt plus shareholders' equity.

"Operating Netback" is a term utilized by Sinopec Daylight to evaluate the operating performance of oil and natural gas assets. The term operating netback is defined as oil and natural gas revenues less royalties, operating and transportation expenses plus (minus) the realized gain (loss) on derivative contracts.

"boe" is a term utilized by Sinopec Daylight in relation to reserves or production to combine the volumetric measures of natural gas, light oil, heavy oil and natural gas liquids ("NGLs") to a common "barrel of oil equivalent" term of measurement. Natural gas volumes have been converted at the ratio of 6,000 cubic feet of natural gas to one boe and this conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Light oil, heavy oil and NGLs have been converted at the ratio of one barrel of these liquids to one boe. Use of the terms boe and amounts per boe without reference to the underlying commodity may be misleading.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this Report constitute forward-looking statements. These statements relate to future events or future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Report should not be unduly relied upon. These statements speak only as of the date of this Report.

The actual results could differ materially from those anticipated in forward-looking statements as a result of certain risk factors, including those set forth below:

- volatility in market prices for oil, NGLs and natural gas;
- counterparty credit risk;
- changes or fluctuations in oil, NGLs and natural gas production levels;
- infrastructure or transportation constraints for oil, NGLs or natural gas;
- liabilities inherent in and as a result of oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves;
- fluctuations in foreign exchange or interest rates;
- actions by governmental or regulatory authorities including changes in royalty structures and programs and income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry generally;
- limitations on insurance;
- changes in accounting policies and standards;
- changes in environmental or other legislation applicable to our operations including environmental laws and regulations associated with drilling and completion technologies, and our ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems and other difficulties in producing oil, NGLs and natural gas reserves.

Statements relating to "reserves" or "resources" are by their nature deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

Financial Highlights

(000s, unless otherwise stated)	**Year ended December 31, 2012**	Period ended December 31, 2011
Oil and natural gas revenues	**$ 609,714**	$ 16,950
Royalties	**(93,674)**	(3,902)
Realized loss on derivative contracts	**-**	(245)
Operating expenses	**(185,473)**	(3,668)
Transportation expenses	**(9,607)**	(252)
Operating netback[(1)]	**$ 320,960**	$ 8,883
General and administrative	**(51,717)**	(1,053)
Cash finance charges	**(54,463)**	(1,979)
Exploration expense	**(3,768)**	-
Realized foreign exchange loss	**(1,311)**	-
Cash taxes	**230**	-
Funds from operations[(1)]	**$ 209,931**	$ 5,851
Cash provided by operating activities	**$ 226,579**	$ 5,716
Net income (loss)	**$ (80,815)**	$ 16,107
Acquisition of Daylight Energy Ltd.	**$ -**	$ 2,413,433
Property, plant and equipment additions	**834,193**	6,956
Exploration and evaluation assets additions	**58,359**	-
Property dispositions	**(4,860)**	-
Value of investments	**9,497**	22,667
Bank debt	**$ 2,040,355**	$ 1,987,787
Working capital deficiency	**$ 122,787**	$ 99,192
Convertible debentures	**$ -**	$ 78,455
Total assets	**$ 4,328,384**	$ 3,839,313

(1) "See Non-GAAP Measures"

Operational Highlights

	Year ended December 31, 2012	Period ended December 31, 2011
Average daily production		
Natural gas *(Mcf/d)*	**148,751**	153,492
Light oil *(Bbls/d)*	**12,522**	12,369
NGLs *(Bbls/d)*	**4,736**	4,066
Oil & NGLs *(Bbls/d)*	**17,258**	16,435
Combined *(boe/d)*	**42,050**	42,017
Average prices received		
Natural gas *($/Mcf)*	**$ 2.50**	$ 3.25
Light oil *($/Bbl)*	**83.37**	91.54
NGLs *($/Bbl)*	**52.79**	61.84
Oil & NGLs *($/Bbl)*	**$ 74.98**	$ 84.19
Combined *($/boe)*	**$ 39.62**	$ 44.82
$ per boe		
Oil and natural gas revenues	**$ 39.62**	$ 44.82
Royalties	**(6.09)**	(10.32)
Realized loss on derivative contracts	**-**	(0.65)
Operating expenses	**(12.05)**	(9.70)
Transportation expenses	**(0.62)**	(0.67)
Operating netback(1)	**$ 20.86**	$ 23.48
General and administrative	**(3.36)**	(2.79)
Cash finance charges	**(3.54)**	(5.23)
Exploration expense	**(0.24)**	-
Realized foreign exchange loss	**(0.08)**	-
Cash taxes	**0.01**	-
Funds from operations(1)	**$ 13.65**	$ 15.46
Wells drilled - gross (net)	**123 (102.6)**	4 (3.1)

(1) "See Non-GAAP Measures"

RESULTS OF OPERATIONS

Overview

The Company was incorporated under the ABCA on October 18, 2011 as 1635905 Alberta Ltd. Pursuant to the Arrangement, effective December 23, 2011, 1635905 Alberta Ltd. acquired: (i) all of the issued and outstanding common shares of Daylight for cash consideration of approximately $2.2 billion; and (ii) Series D Debentures for a cash price of $1,110 per $1,000 principal amount of Series D Debentures, plus accrued and unpaid interest to the closing date, totaling $196.6 million. In connection with the Arrangement, 1635905 Alberta Ltd. and Daylight amalgamated to form Sinopec Daylight, which carries on the business formerly conducted by Daylight. The financial results included in this report include the operating results of Sinopec Daylight for the year ended December 31, 2012 and for the period from incorporation on October 18, 2011 to December 31, 2011 which includes oil and natural gas operational results from December 23, 2011 to December 31, 2011.

Sinopec Daylight is an oil and natural gas producing company with a high quality suite of resource play assets in Western Canada. Our team has developed a multi-year inventory of repeatable, low risk exploitation resource play projects with substantial potential reserve additions on assets we currently own and control in the premier Pembina light oil fairway and Deep Basin areas of Alberta and British Columbia. In 2012, Sinopec Daylight executed on its long-term plan of developing high quality assets in its core areas drilling 120 gross (99.6 net) wells during the period investing $714.2 million on projects that include its Cardium light oil resource play in Pembina and Warburg, liquids rich gas resource plays at Wapiti (Montney) and Brazeau (Rock Creek), as well as multiple natural gas plays in the West Central Area of Alberta. In addition, Sinopec Daylight advanced its Duvernay play by drilling 3 gross (3.0 net) wells during the year spending $50 million on the play. In addition to developing inventory, Sinopec Daylight acquired new Crown lands in 2012 totaling $48.8 million and acquired additional Montney working interests in the Wapiti area for $74.7 million.

Production

Sinopec Daylight’s total production volumes for the year ended December 31, 2012 averaged 42,050 boe per day, consistent with average daily production of 42,017 boe per day for the period ended December 31, 2011. Average daily production for 2012 was comprised of 148,751 Mcf per day of natural gas, 12,522 Bbls per day of light oil and 4,736 Bbls per day of NGLs. Average production for 2012 was impacted by third-party processing downtime during the first half of the year and delays in bringing on new production due to facility constraints. These production events offset production volume additions from the 2012 capital program.

Production Volumes by Commodity	**Year ended December 31, 2012**	Period ended December 31, 2011
Natural gas *(Mcf/d)*	**148,751**	153,492
Light oil *(Bbls/d)*	**12,522**	12,369
NGLs *(Bbls/d)*	**4,736**	4,066
Combined oil & NGLs *(Bbls/d)*	**17,258**	16,435
Combined all products *(boe/d)*	**42,050**	42,017

Sinopec Daylight’s 2012 capital program was focused in the following areas:

- Pembina properties of Brazeau and Warburg;
- Peace River Arch properties of Wapiti and Elmworth; and
- West Central properties of Fox Creek, Kaybob and Medicine Lodge.

Commodity Prices

Sinopec Daylight's natural gas prices are influenced by both North American and global supply and demand balances, seasonal changes, storage levels, the US to Canadian dollar exchange rate and transportation capacity constraints. Sinopec Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO") which provides a pricing reference point for natural gas. Sinopec Daylight markets the majority of its natural gas through a combination of the daily AECO index price and monthly AECO index price contracts with a small portion of its natural gas sold through longer-term contracts with aggregators. As a result, Sinopec Daylight's realized natural gas price is compared to AECO index prices.

Sinopec Daylight's oil prices are significantly influenced by global supply and demand conditions as well as transportation capacity constraints. Sinopec Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price converted at the US to Canadian dollar exchange rate. Canadian light oil prices, including the Edmonton par price, correlate to trading differentials that adjust WTI for the US to Canadian dollar exchange rate as well as transportation costs, quality adjustments, transportation capacity constraints and supply and demand fundamentals.

NGLs include pentane, butane, propane and ethane. Prices for NGLs have their own market dynamic with a relatively strong correlation to light oil prices for pentane, while butane, propane and ethane trade at varying discounts due to market conditions including supply and demand.

Market Price	**Year ended December 31, 2012**	Period ended December 31, 2011
AECO Index *($Cdn/Mcf)*		
Daily Index	**$ 2.39**	$ 3.11
Monthly Index	**2.40**	3.21
AECO average Index	**$ 2.40**	$ 3.16
WTI ($US/Bbl)	**$ 94.21**	$ 98.14
Edmonton par *($Cdn/Bbl)*	**$ 86.29**	$ 97.74
Exchange rate *($US/$Cdn)*	**1.0008**	1.0242

Sinopec Daylight Prices Realized	**Year ended December 31, 2012**	Period ended December 31, 2011
Natural gas *($/Mcf)*	**$ 2.50**	$ 3.25
Light oil *($/Bbl)*	**83.37**	91.54
NGLs *($/Bbl)*	**52.79**	61.84
Combined oil & NGLs *($/Bbl)*	**$ 74.98**	$ 84.19
Combined all products *($/boe)*	**$ 39.62**	$ 44.82

Sinopec Daylight markets the majority of its natural gas through contracts based on daily and monthly AECO index pricing with approximately 2% sold through longer-term contracts with aggregators. Sinopec Daylight sold approximately 50% of its production at the monthly AECO index price in 2012. Sinopec Daylight's natural gas price during 2012 was $2.50 per Mcf, a 4% premium to the average of the daily and monthly AECO index prices during the year. Sinopec Daylight's realized price represents a 23% decrease from the natural gas price of $3.25 per Mcf, a 3% premium to the average of the daily and monthly AECO index prices, for the period ended December 31, 2011 which is consistent with the decrease in the average of the daily and monthly AECO index prices between these two periods.

Sinopec Daylight's 2012 light oil realized $83.37 per Bbl, 97% of Edmonton par as compared to $91.54 per bbl for the period ended December 31, 2011, 94% of Edmonton par. The lower realized price was consistent with lower WTI pricing and increased differentials to Edmonton par in 2012 as compared to the period ended December 31, 2011.

Changes in the US to Canadian dollar exchange rate affect the Canadian dollar Edmonton par and Sinopec Daylight's realized light oil price relative to the US dollar WTI, with a higher exchange rate generally reducing Edmonton par and Sinopec Daylight's realized light oil price relative to WTI and a lower exchange rate generally increasing Edmonton par and Sinopec Daylight's realized light oil price relative to WTI. The US to Canadian dollar exchange rate for 2012 was 1.0008 which generally put upward pressure on Edmonton par and Sinopec Daylight's realized light oil price in during the year as compared to the exchange rate for the period ended December 31, 2011 of 1.0242.

Sinopec Daylight's 2012 NGLs realized $52.79 per Bbl, 61% of Edmonton par, a 15% decrease from the NGLs realized price of $61.84 per Bbl, 63% of Edmonton par, for the period ended December 31, 2011.

Sinopec Daylight's combined oil and NGLs price for 2012 was $74.98 per Bbl, 11% lower than $84.19 per Bbl for the period ended December 31, 2011.

Revenue

Revenue *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Natural gas	**$ 136,092**	$ 4,496
Light oil	**382,108**	10,191
NGLs	**91,514**	2,263
Total	**$ 609,714**	$ 16,950

Natural gas revenue for 2012 was $136.1 million, as compared to $4.5 million for the period ended December 31, 2011. Light oil revenues were $382.1 million for 2012 and $10.2 million for the period ended December 31, 2011. NGLs revenues were $91.5 million and $2.3 million for 2012 and the period ended December 31, 2011, respectively. Revenues in 2011 are for the period from December 23, 2011 to December 31, 2011. Total revenues for 2012 were $609.7 million and $17.0 million for 2011.

Royalties

Royalty payments are made to the owners of the mineral rights on leases, which include provincial governments (Crown) and freehold landowners, as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Sinopec Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in their property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil Crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Alberta provincial government.

Royalties by Type *(000s, unless otherwise stated)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Crown royalties	**$ 70,854**	$ 3,300
Freehold royalties	**4,497**	233
Overriding royalties	**18,323**	369
Total	**$ 93,674**	$ 3,902
$ per boe	**$ 6.09**	$ 10.32
% of revenue	**15.4%**	23.0%

Royalties by Commodity *(000s, unless otherwise stated)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Natural gas	**$ (21,041)**	$ 56
Oil and NGLs	**114,715**	3,846
Total	**$ 93,674**	$ 3,902
Natural gas *($/mcf)*	**$ (0.39)**	$ 0.04
Oil and NGLs *($/bbl)*	**$ 18.16**	$ 26.00
Total *($/boe)*	**$ 6.09**	$ 10.32
Natural gas (*% of revenue*)	**(15.5%)**	1.2%
Oil and NGLs (*% of revenue*)	**24.2%**	30.9%
Total (*% of revenue*)	**15.4%**	23.0%

Overall royalty rates decreased to 15.4% of revenue for 2012 as compared to 23.0% of revenue for the period ended December 31, 2011 due to lower royalties on new production and Gas Cost Allowance Credits. For 2012, Sinopec Daylight received Gas Cost Allowance credits in excess of royalties due on natural gas. As a result, natural gas royalty rates were a credit of 15.5% of revenue as compared to an expense of 1.2% of revenue for the period ended December 31, 2011. Light oil and NGLs royalty rates decreased to 24.2% of revenue during 2012 as compared to 30.9% of revenue for the period ended December 31, 2011 due to decreases in oil and NGLs prices and reduced Crown royalties on new production.

Approximately 99% of Sinopec Daylight's reserves and production are in Alberta, with the balance located in British Columbia. Approximately 76% of current production is subject to Crown royalties, which are affected directly by government royalty programs, and the remaining 24% of Sinopec Daylight's 2012 royalties are related to freehold and override charges which are not directly affected by these programs.

Foreign Exchange

Sinopec Daylight had an unrealized foreign exchange gain of $32.9 million in 2012 which related to the US denominated bank debt.

Foreign Exchange Gain (Loss) *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Unrealized gain	**$ 32,893**	$ 16,236
Realized loss on operating activities	**(1,336)**	-
Realized gain on debt	**58**	-
Total	**$ 31,615**	$ 16,236

Foreign Exchange Gain (Loss) *$ per boe*	**Year ended December 31, 2012**	Period ended December 31, 2011
Unrealized gain	**$ 2.14**	$ 42.93
Realized loss on operating activities	**(0.08)**	-
Realized gain on debt	**-**	-
Total	**$ 2.06**	$ 42.93

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

Operating Expenses	**Year ended December 31, 2012**	Period ended December 31, 2011
(000s)	**$ 185,473**	$ 3,668
$ per boe	**$ 12.05**	$ 9.70

Sinopec Daylight's operating costs for 2012 were $185.5 million or $12.05 per boe as compared to $3.7 million and $9.70 per boe for the period December 23, 2011 to December 31, 2011.

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Sinopec Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. A portion of Sinopec Daylight's oil production is delivered to a terminal by truck and bear trucking charges which are a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser.

Transportation Expenses	**Year ended December 31, 2012**	Period ended December 31, 2011
(000s)	**$ 9,607**	$ 252
$ per boe	**$ 0.62**	$ 0.67

Transportation expenses were $9.6 million or $0.62 per boe for 2012 and $0.3 million or $0.67 per boe for the period December 23, 2011 to December 31, 2011.

Operating Netback

The following table provides detail regarding Sinopec Daylight's operating netback on a per boe basis:

Operating Netback *$ per boe*	**Year ended December 31, 2012**	Period ended December 31, 2011
Oil and natural gas revenues	**$ 39.62**	$ 44.82
Royalties	**(6.09)**	(10.32)
Realized loss on derivative contracts	**-**	(0.65)
Operating expenses	**(12.05)**	(9.70)
Transportation expenses	**(0.62)**	(0.67)
Total	**$ 20.86**	$ 23.48

General and Administrative Expenses

The following tables provide detail regarding Sinopec Daylight's general and administrative expenses ("G&A") on a total and per boe basis. General and administrative expenses include the expense related to the Company's long-term incentive plan.

General and administrative Expenses *(000s)*		**Year ended December 31, 2012**		Period ended December 31, 2011
Gross G&A	**$**	**64,113**	$	1,148
Operating recoveries		**(20,597)**		(95)
Capitalized costs		**(9,820)**		-
G&A after recoveries	**$**	**33,696**	$	1,053
Long-term incentive		**18,021**		-
Total G&A	**$**	**51,717**	$	1,053

General and administrative Expenses *$ per boe*		**Year ended December 31, 2012**		Period ended December 31, 2011
Gross G&A	**$**	**4.17**	$	3.04
Operating recoveries		**(1.34)**		(0.25)
Capitalized costs		**(0.64)**		-
G&A after recoveries		**2.19**		2.79
Long term incentive		**1.17**		-
Total G&A	**$**	**3.36**	$	2.79

Gross G&A per boe increased as a result of additional staffing required for Sinopec Daylight's expanded 2012 capital program and additional costs related to overseas travel offset by increased operating recoveries from the expanded capital program.

Long-term incentive expense is an allocation of the fair value of Restricted Awards ("RAs") and Performance Awards ("PAs") over their vesting period starting at the date of grant. The long-term incentive program was initiated in 2012. Long-term incentive expense is calculated using graded vesting which allocates more of the expense to the beginning of the term for RAs and PAs. The 2012 long-term incentive expense was $18.0 million (2011 - $nil) and $1.17 per boe (2011 - $nil).

Finance Charges

Sinopec Daylight incurred cash interest expense on its outstanding bank debt and its convertible debentures prior to their redemption in January 2012. Sinopec Daylight's effective bank debt interest rate was 2.80% for 2012 as compared to 3.6% for the period ended December 31, 2011. Cash finance charges are influenced by market interest rates. Non-cash finance charges consist of the accretion of deferred financing costs and decommissioning obligations.

Finance Charges *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Bank debt interest	**$ 54,000**	$ 1,795
Convertible debenture interest	**463**	184
Cash finance charges	**54,463**	1,979
Amortization of deferred financing costs	**11,733**	225
Accretion of decommissioning obligations	**4,961**	128
Total	**$ 71,157**	$ 2,332

Finance Charges *$ per boe*	**Year ended December 31, 2012**	Period ended December 31, 2011
Bank debt interest	**$ 3.51**	$ 4.74
Convertible debenture interest	**0.03**	0.49
Cash finance charges	**3.54**	5.23
Amortization of deferred financing costs	**0.76**	0.60
Accretion of decommissioning obligations	**0.32**	0.34
Total	**$ 4.62**	$ 6.17

Depletion, Depreciation and Amortization

Sinopec Daylight depletes its producing oil and gas assets using proved developed and total proved reserves in the application of the unit-of-production method.

Depletion, Depreciation and Amortization	**Year ended December 31, 2012**	Period ended December 31, 2011
(000s)	**$ 340,752**	$ 5,529
$ per boe	**$ 22.14**	$ 14.62

Deferred Taxes

Sinopec Daylight recorded a deferred tax recovery of $32.7 million for 2012 as compared to a deferred tax expense of $2.3 million for the period ended December 31, 2011. Sinopec Daylight is a taxable entity under the *Income Tax Act* (Canada) (the "Tax Act").

Deferred Tax Expense (Recovery)	**Year ended December 31, 2012**	Period ended December 31, 2011
(000s)	**$ (32,745)**	$ 2,340
$ per boe	**$ (2.13)**	$ 6.19

Taxable income as a corporation will vary depending on total income and expenses which will vary with commodity prices, costs, claims for both accumulated tax pools and tax pools associated with current year expenditures. Current taxes payable will be subject to normal corporate tax rates. Because Sinopec Daylight has accumulated significant tax pools, taxable income and cash taxes are expected to be $nil for several years. In 2012, Sinopec Daylight received an income tax recovery of $0.2 million related to income taxes paid in a predecessor company. Tax pools are deductible at various rates and annual deductions associated with the initial tax pools are expected to decline over time.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net Income (Loss), Funds from Operations and Cash Provided by Operating Activities

As a result of the previously discussed factors, Sinopec Daylight recognized a 2012 net loss of $80.8 million ($5.25 per boe), funds from operations of $209.9 million ($13.64 per boe) and cash provided by operating activities of $226.6 million ($14.72 per boe). For the period ended December 31, 2011, Sinopec Daylight recognized net income of $16.1 million ($42.59 per boe), funds from operations of $5.8 million ($15.47 per boe) and cash provided by operating activities of $5.7 million ($15.12 per boe).

Capital Expenditures, Acquisitions and Divestitures

Sinopec Daylight invested $887.7 million on its capital expenditure program during 2012 and $7.0 million for the period ended December 31, 2011. The capital expenditure program continues to provide new production and reserves.

Property, Plant and Equipment Additions *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Land and acquisitions	**$ 119,803**	$ -
Geological and geophysical	**17,018**	-
Drill, complete and recomplete	**502,871**	5,913
Equipping and facilities	**194,501**	1,043
Total	**$ 834,193**	$ 6,956
Property dispositions	**$ (4,860)**	$ -
Total	**$ (4,860)**	$ -

Exploration and Evaluation Assets Additions *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Land and acquisitions	**$ 12,359**	$ -
Geological and geophysical	**1,680**	-
Drill, complete and recomplete	**41,466**	-
Equipping and facilities	**2,854**	-
Total	**$ 58,359**	$ -

Total Capital Expenditures *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Land and acquisitions	**$ 132,162**	$ -
Geological and geophysical	**18,698**	-
Drill, complete and recomplete	**544,337**	5,913
Equipping and facilities	**197,355**	1,043
Total	**$ 892,552**	$ 6,956
Property dispositions	**$ (4,860)**	$ -
Total capital expenditures	**$ 887,692**	$ 6,956
Corporate acquisition	**$ -**	$ 2,413,433

In 2012, Sinopec Daylight drilled a total of 123 gross (102.6 net) wells with 100% success. This program provided production and reserve additions within the following core areas:

- Pembina properties include Brazeau and Warburg. During 2012, Sinopec Daylight drilled 72 gross (66.1 net) oil wells, 7 gross (7.0 net) natural gas wells;
- Peace River Arch properties include Elmworth and Wapiti. In 2012, Sinopec Daylight drilled 16 gross (13.6 net) natural gas wells; and
- West Central properties include Medicine Lodge and Kaybob. In 2012, Sinopec Daylight drilled 25 gross (15.4 net) natural gas wells, and 3 gross (0.5 net) oil wells.

During 2012, Sinopec Daylight acquired certain working interests in liquids rich natural gas properties in the Wapiti area for cash proceeds of $74.7 million, net of customary closing adjustments.

Decommissioning Obligations

Sinopec Daylight's decommissioning obligations result from net ownership interests in property, plant and equipment including well sites, gathering systems and processing facilities. Sinopec Daylight estimates the total undiscounted inflation adjusted cash flow required to settle its decommissioning obligations to be approximately $471.1 million (period ended December 31, 2011 - $426.1 million) which will be incurred before 2062 with the majority of the costs to be incurred between 2019 and 2061. An inflation factor of 2% has been applied to the estimated decommissioning costs at December 31, 2012 (period ended December 31, 2011 - 2%). A risk free rate of 2.5% (period ended December 31, 2011 - 2.5%) has been used to calculate the fair value of the decommissioning obligations.

Decommissioning Obligations *(000s)*	**Year ended December 31, 2012**	Period ended December 31, 2011
Balance at beginning of period	**$ 193,760**	$ -
Liabilities assumed on corporate acquisitions	**-**	193,347
Liabilities assumed on property acquisitions	**342**	-
Liabilities transferred on property dispositions	**(432)**	-
Change in estimate	**50**	-
Liabilities incurred	**34,391**	85
Liabilities settled	**(19,635)**	-
Accretion expense	**4,961**	128
Balance at end of period	**$ 213,437**	$ 193,760

Decommissioning obligations are considered a critical accounting estimate. There are significant uncertainties related to settling decommissioning obligations and the impact on the financial statements could be material. The eventual timing of and costs to settle these obligations could differ from current estimates. The main factors that can cause expected cash flows to change are changes to laws and regulations, construction of new facilities, changes in reserve estimates and reserve lives and changes in technology.

Health, Safety and Environment

The health and safety of employees, contractors, visitors and the public is of paramount concern to Sinopec Daylight, and we believe that management, employees and contractors all share accountability for providing the leadership and direction needed to effectively manage health and safety programs. We are committed to an integrated Health and Safety management system where effective policies are implemented, communicated and monitored, and where each employee, contractor and subcontractor understands our expectations and is trained and competent in the skills necessary to carry out their job functions. In this regard, Sinopec Daylight performs multiple emergency response exercises to enhance its emergency preparedness. Sinopec Daylight continually works to improve its health and safety performance through increased awareness in the field by frequently communicating safety expectations and responsibilities and by promoting industry recognized best practices. Sinopec Daylight mitigates its impact on the environment by maintaining a proactive site abandonment and reclamation program.

Investments

	December 31, 2012		December 31, 2011	
Investments *(000s, except number of shares)*	**Number of Shares**	**Fair Value**	Number of Shares	Fair Value
Gear Energy Ltd.	**4,316,666**	**$ 9,497**	9,66,666	$ 22,667

Sinopec Daylight holds an investment in Gear Energy Ltd. ("Gear"). Gear is not a listed entity, and there is currently no liquid trading market in respect of Sinopec Daylight's investment in Gear's common shares. During 2012, Sinopec Daylight disposed of 4,750,000 shares at prices ranging from $2.17 to $2.25 per share, resulting in a loss of $1.3 million. At December 31, 2012, the investment in Gear was recorded at fair value, being $2.20 per common share resulting in an unrealized loss of $1.3 million (period ended December 31, 2011 - $2.0 million unrealized gain). The unrealized gain in 2011 of $2.0 million arose as a result of the receipt of 800,000 common shares in Gear pursuant to the original share rights agreement which were valued at $2.50 per common share.

Liquidity and Capital Resources

Liquidity and Capital Resources *(000s)*	**December 31, 2012**	December 31, 2011
Bank debt	**$ 2,049,961**	$ 1,996,863
Working capital deficiency(1)	**122,787**	99,192
Net debt(2)	**2,172,748**	2,096,055
Due to Company's shareholder	**-**	9,662
Convertible debentures	**-**	78,455
Debt	**2,172,748**	2,184,172
Shareholders' equity	**1,630,481**	1,043,863
Capitalization	**$ 3,803,229**	$ 3,228,035
Debt to Capitalization(2)	**57%**	68%

(1) Excludes bank debt, convertible debentures and due to Company's shareholder.

(2) See "Non-GAAP Measures".

The Company continually monitors its financing alternatives with the long term objective of substantially financing its capital requirements through internally generated funds from operations. In monitoring and managing Sinopec Daylight's liquidity and capital resources, Sinopec Daylight uses the ratios net debt to annualized funds from operations and debt to capitalization. Sinopec Daylight's strategy is to maintain ratios that are considered reasonable and prudent under prevailing economic circumstances for the Corporation.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

Sinopec Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures that ensure that information required to be disclosed by Sinopec Daylight is accumulated and communicated to Sinopec Daylight's management to allow timely decisions regarding required disclosure. Sinopec Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2012, that Sinopec Daylight's disclosure controls and procedures during the year ended December 31, 2012 are effective to provide reasonable assurance that material information related to Sinopec Daylight, including its consolidated subsidiaries, is made known to them by others within those entities.

Internal Control Over Financial Reporting

Sinopec Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting related to the Company, including its consolidated subsidiaries, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. As at December 31, 2012, Sinopec Daylight's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the design of the Company's internal controls over financial reporting and have concluded that these controls are designed appropriately.

No changes in the Company's internal controls over financial reporting were identified during 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that while Sinopec Daylight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Critical Accounting Estimates

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates.

MANAGEMENT RESPONSIBILITY STATEMENT

The consolidated financial statements of Sinopec Daylight Energy Ltd. and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Sinopec Daylight Energy Ltd. maintains appropriate systems of internal controls to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Sinopec Daylight Energy Ltd. has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. Sinopec Daylight Energy Ltd. has a nine member Board of Directors of which two Directors are independent. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee includes the two independent directors and meets with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Annual Report and recommends their approval to the Board of Directors.

Signed *"Anthony Lambert"*	Signed *"Steve Nielsen"*
Anthony Lambert President and CEO	Steve Nielsen Vice President and CFO

Calgary, Alberta
January 29, 2013

Independent Auditor's Report

TO THE DIRECTORS OF SINOPEC DAYLIGHT ENERGY LTD.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Sinopec Daylight Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2012 and the period from incorporation on October 18, 2011 to December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 controls. 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sinopec Daylight Energy Ltd. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2012 and the period from incorporation October 18, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

Signed *"KPMG LLP"*

Chartered Accountants
January 29, 2013
Calgary, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

		December 31, 2012		December 31, 2011
Assets				
Current assets				
Cash and cash equivalents	**$**	**3,337**	$	-
Accounts receivable (note 19)		**73,063**		77,153
Prepaid expenses and deposits		**5,512**		4,738
Restricted cash (note5)		**-**		82,662
		81,912		164,553
Investments (note 6)		**9,497**		22,667
Property, plant and equipment (note 7)		**3,173,502**		2,647,237
Exploration and evaluation assets (note 8)		**490,388**		431,771
Goodwill (notes 5 and 7)		**573,085**		573,085
	$	**4,328,384**	$	3,839,313
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**204,699**	$	263,745
Due to the Company's shareholder (note 15)		**-**		9,662
Bank debt - Bank of China Facility (note 9)		**-**		1,516,424
Convertible debentures (note 5)		**-**		78,455
Bank debt - Syndicated Canadian Facilities (note 9)		**-**		471,363
		204,699		2,339,649
Bank debt – Bank of China Facility (note 9)		**2,040,355**		-
Other liabilities (note 11)		**10,116**		-
Decommissioning obligations (note 12)		**213,437**		193,760
Deferred tax liability (note 13)		**229,296**		262,041
		2,697,903		2,795,450
Shareholder's Equity				
Share capital (note 14)		**1,695,189**		1,027,756
Retained earnings (deficit)		**(64,708)**		16,107
		1,630,481		1,043,863
	$	**4,328,384**	$	3,839,313

Commitments and contingencies (note 20)

Subsequent event (note 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

Signed *"Hou Hongbin"*
Director

Signed *"Wu Chengliang"*
Director

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(in thousands of Canadian dollars)

	Year ended December 31, 2012	October 18, 2011 to December 31, 2011
Revenues		
Oil and natural gas	**$ 609,714**	$ 16,950
Royalties	**(93,674)**	(3,902)
Oil and natural gas, net	**516,040**	13,048
Gain (loss) on financial instruments (note 19)	**(2,562)**	1,997
	513,478	15,045
Expenses		
Operating	**185,473**	3,668
Transportation	**9,607**	252
Exploration	**3,768**	-
General and administrative	**51,717**	1,053
Finance charges (note 10)	**71,157**	2,332
Gain on dispositions of property, plant and equipment	**(3,591)**	-
Foreign exchange gain (note 19)	**(31,615)**	(16,236)
Depletion, depreciation and amortization (note 7)	**340,752**	5,529
	627,268	(3,402)
Income (loss) before taxes	**(113,790)**	18,447
Tax expense (benefit) (note 13)	**(32,975)**	2,340
Net income (loss) and comprehensive income (loss)	**$ (80,815)**	$ 16,107

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2012 and the period from Incorporation on October 18, 2011 to December 31, 2011

(in thousands of Canadian dollars)

	Share Capital	Retained Earnings (Deficit)	Total Equity
Share issuance (note 14)	$ 1,027,756	$ -	$ 1,027,756
Net income	-	16,107	16,107
Balance at December 31, 2011	**$ 1,027,756**	**$ 16,107**	**$ 1,043,863**
Share issuance (note 14)	667,433	-	667,433
Net loss	-	(80,815)	(80,815)
Balance at December 31, 2012	**$ 1,695,189**	**$ (64,708)**	**$ 1,630,481**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year Ended December 31, 2012	October 18, 2011 to December 31, 2011
Cash provided by (used in):		
Net income (loss)	**$ (80,815)**	$ 16,107
Items not affecting cash:		
Depletion, depreciation and amortization (note 7)	**340,752**	5,529
Deferred tax provision (reduction) (note 13)	**(32,745)**	2,340
Decommissioning accretion (note 12)	**4,961**	128
Amortization of prepaid duration fee	**11,733**	225
Unrealized gain on foreign exchange (note 19)	**(32,926)**	(16,236)
(Gain) loss on financial instruments (note 19)	**2,562**	(2,242)
Gain on dispositions of property, plant and equipment	**(3,591)**	-
Long-term incentive included in general and administrative	**7,342**	-
Decommissioning expenditures	**(19,635)**	-
Interest expense (note 10)	**54,463**	1,979
Change in non-cash operating working capital (note 18)	**(25,522)**	(2,114)
Cash provided by operating activities	**226,579**	5,716
Financing		
Syndicated Canadian Facilities	**(471,363)**	(68,966)
Bank of China Facility (note 9)	**557,387**	1,541,634
Interest paid	**(55,447)**	(494)
Debt transaction costs	**(12,263)**	(9,301)
Funds advanced from (repaid to) the Company’s shareholder	**(9,662)**	9,764
Issue of common shares (note 14)	**667,433**	1,027,756
Repayment of Series C Convertible Debentures	**(78,455)**	-
Change in restricted cash	**82,662**	(82,662)
Cash provided by financing activities	**680,292**	2,417,731
Investing		
Property, plant and equipment additions (note 7)	**(834,193)**	(6,956)
Exploration and evaluation assets additions (note 8)	**(58,359)**	-
Long-term incentive included in capitalized general and administrative	**2,774**	-
Proceed on dispositions of property, plant and equipment	**4,860**	-
Proceeds on disposition of investments	**10,608**	-
Corporate acquisition of Daylight Energy Ltd. (note 5)	-	(2,413,433)
Change in non-cash investing working capital (note 18)	**(29,224)**	(3,058)
Cash used in investing activities	**(903,534)**	(2,423,447)
Change in cash and cash equivalents	**3,337**	-
Cash and cash equivalents, beginning of period	**-**	-
Cash and cash equivalents, end of period	**$ 3,337**	$ -

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

On October 18, 2011, 1635905 Alberta Ltd. was incorporated under the Business Corporations Act (Alberta) ("ABCA"), with share capital of $100, for the purpose of acquiring Daylight Energy Ltd. ("Daylight"), a publicly traded petroleum and natural gas company. On December 23, 2011, 1635905 Alberta Ltd. acquired all of the issued and outstanding common shares and 6.25% series D convertible unsecured subordinated debentures ("Series D Debentures") of Daylight and amalgamated with Daylight to form Sinopec Daylight Energy Ltd. ("Sinopec Daylight" or the "Company") (see note 5). Sinopec Daylight is an indirect wholly-owned subsidiary of China Petrochemical Corporation ("CPC"), a state owned enterprise of the Government of the People's Republic of China. Sinopec Daylight's indirect operating parent company is Sinopec International Petroleum Exploration and Production Corporation ("SIPC"), a wholly-owned subsidiary of CPC comprising CPC's international petroleum operations. These parent companies provide financial support to Sinopec Daylight by providing financial guarantees and capital funding.

Sinopec Daylight is domiciled and incorporated in the Province of Alberta and is involved in the exploration, exploitation, development and production of oil and natural gas in Alberta, British Columbia and Saskatchewan. The principal place of business of the Company is 112 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H3.

The consolidated financial statements of Sinopec Daylight as at and for the year ended December 31, 2012 and with a comparative period from incorporation on October 18, 2011 to December 31, 2011, comprise the results of the Company and wholly owned subsidiaries and partnership interests as follows:

- 1199549 Alberta Ltd.
- 1431509 Alberta Ltd.
- Daylight Energy Partnership
- West Energy Partnership
- Daylight Energy Trust

The results of operations for Sinopec Daylight, as well as the above noted subsidiaries, and partnership interests, are included in these consolidated financial statements.

2. BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were authorized for issue by the Board of Directors on January 29, 2013.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for assets and liabilities stated at fair value relating to derivative instruments and investments held for trading. The methods used to measure fair values are discussed further in note 19.

Certain prior period balances have been reclassified to conform to the current period's presentation.

Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars which is the Company's and its subsidiaries' and partnerships' functional currency. All financial information presented has been rounded to the nearest thousand dollars. In cases where United States dollars are referred to, the amounts are identified by "USD".

Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgement in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

The Company's functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps it receipts from operating activities and in which currency the Company has received financing. Management used its judgment to assess these factors and concluded its functional currency was the Canadian dollar.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Estimation of recoverable quantities of proven, probable and possible and/or contingent reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment.

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven, probable and possible and/or contingent reserves being acquired.

Compensation costs recognized under the long-term incentive plan are subject to an estimation of the forfeiture rate and the performance multiplier.

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these consolidated financial statements and have been applied consistently by the Company’s subsidiaries and partnerships.

Basis of Consolidation

These financial statements consolidate the financial results of Sinopec Daylight and its wholly-owned subsidiaries and partnerships. A subsidiary is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Many of the Company’s oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company’s share of these jointly controlled assets and liabilities and a proportionate share of the relevant revenues and related costs.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their recognized amounts, primarily at their fair value, at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. Acquisition costs incurred are expensed.

Goodwill is measured as the excess of the cost of the acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities of the acquired company. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs expected to benefit from the combination’s synergies. Goodwill is stated at cost less any accumulated impairment losses and is not amortized. Goodwill is tested for impairment on an annual basis.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Pre-license costs

Costs incurred prior to receiving the legal rights to explore an area are expensed when incurred.

Exploration and evaluation assets **("E&E")**

Exploration license and unproved property acquisition costs, and costs directly associated with an exploration well and appraisal activities are capitalized within exploration and evaluation assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability by management.

Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. All such carried costs are subject to technical, commercial and management review at each reporting date to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When technical feasibility and commercial viability has been established based on proved reserves of oil and/or natural gas being determined and development is to proceed, the relevant expenditure is tested for potential impairment and then transferred to property, plant and equipment.

Seismic costs associated with E&E assets are expensed as incurred.

Exploration assets may also include the development of a new technology or process in which the Company has limited expertise/experience.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depletion, depreciation and amortization and accumulated impairment losses. Capitalized costs include the purchase price or construction cost of the asset, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligations, and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing components of equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized amounts generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The gain or loss from the divestitures of property, plant and equipment is recognized in net income. In addition, risk-sharing agreements in which Sinopec Daylight cedes a portion of its working interest to a third-party are generally considered to be disposals of property, plant and equipment, potentially resulting in a gain or loss on disposition.

Exchanges of assets within property, plant and equipment are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on de-recognition of the asset given up is recognized in net income.

An asset within property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the item is derecognized.

Depletion, depreciation and amortization

Capitalized costs of proved oil and gas properties are depleted using the unit-of-production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of six thousand cubic feet of natural gas to one barrel of oil, calculated in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. Depletion and depreciation rates are updated in each reporting period that a significant change in circumstances, including reserves revisions, occurs.

Successful exploratory wells and development costs are depleted over proved developed reserves. Acquired resource properties with proved reserves are depleted over total proved reserves. Future development costs are excluded from depletion. Acquisition costs related to resource properties without proved reserves and undeveloped land included within property, plant and equipment are not depleted until proved reserves are assigned at which time they are depleted over total proved reserves. If undeveloped land is abandoned or expires, the costs will be expensed.

Corporate assets primarily consist of office furniture, fixtures, leasehold improvements, and information technology which are stated at cost less accumulated depreciation and are depreciated on a straight line basis at rates ranging from 20% to 25%.

Assets Held for Sale

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depreciated, depleted or amortized.

Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Exploration and evaluation assets are combined with all CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Goodwill is assessed for impairment on an annual basis on December 31, or more frequently if circumstances arise that indicate impairment may have occurred. To test for impairment, goodwill is assessed at a corporate level. If the recoverable amount is less than the carrying amount, an impairment loss is recorded and allocated to the carrying value of goodwill.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are reviewed for possible reversal at each reporting period. A previously recognized impairment loss is reversed only if there has been a change in the estimates or assumptions used to determine the recoverable amount since the impairment loss was recognized. 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 depletion, depreciation and amortization, if no impairment loss had been recognized.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it 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 that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to decommissioning obligations for dismantling, decommissioning and site restoration activities. Provision is made for the estimated cost of decommissioning obligations and capitalized in the relevant asset category unless it arises from the normal course of production activities in which case it is recognized in net income. Provisions for decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the statement of financial position date using a risk free rate. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs; whereas, increases or decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision is established.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is remote.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Finance Charges

Finance charges comprise interest expense on borrowings, including bank debt, amounts due to the Company's shareholder and convertible debentures, the amortization of annual financing fees, and the accretion of the discount on provisions. Borrowing costs are recognized in net income using the effective interest method and are recognized in income in the period in which they are incurred. Borrowing costs for the construction of a qualifying asset are capitalized for the period of time from when construction commences to when the asset is prepared for its intended use. The capitalization rate to determine the amount of borrowing for a qualifying asset is the weighted average interest rate applicable to the Company's outstanding borrowings during the capitalization period.

Income Taxes

Income tax expense comprises current and deferred tax expense.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that sufficient future taxable income will be available to utilize those temporary differences and losses. Such deferred tax liabilities and assets are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable net income nor the accounting profit or from investments in subsidiaries, associates and interest in joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in net income in the period that the change occurs.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax 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.

Income tax expense is recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Cash and Cash Equivalents

Sinopec Daylight considers cash on hand and term investments held with banks, with a maturity of three months or less to be cash equivalents. Restricted cash is not considered part of cash and cash equivalents available for general corporate purposes.

Investments

Investments in which the Company may exercise significant influence are accounted for using the equity method. The recorded amount of the investment is increased or decreased for the Company's ownership percentage of the Company's net income or loss and reduced by dividends paid to the Company. The Company evaluates the carrying value of its equity investments at least annually or more frequently should economic events dictate. If there has been a decline in value of an investment, other than a temporary decline, the investment is written down to its market value and the impairment charged to net income. The Company has no investments in this category.

Investments in which the Company does not exercise significant influence are classified as financial assets held for trading. Investments held for trading are initially recorded at their fair value with changes in their fair value recognized in net income.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Financial Instruments

Financial assets

At the time of their initial recognition financial assets are classified as: loans and receivables, financial assets at fair value through profit or loss, held to maturity investments or as available for sale financial assets. Financial assets include cash and cash equivalents and investments, other than equity method investments, accounts receivable, restricted cash and derivative financial instruments. Financial assets are recognized initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Transaction costs on financial assets at fair value through profit and loss are expensed immediately.

The subsequent measurement of financial assets depends on their classification as follows:

- *Loans and receivables* - This category of financial assets includes cash and cash equivalents, restricted cash and accounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired as well as through the amortization process.

- *Financial assets at fair value through profit or loss* - Investments, other than equity method investments, and derivative instruments, other than those designated as effective hedging instruments, are included in this category. Derivative instruments are further described below. These instruments are designated at fair value through profit or loss upon initial recognition. These financial assets are carried on the statement of financial position at fair value with gains or losses recognized in the income statement. The fair value of investments is determined by reference to their market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.

- *Financial assets held-to-maturity* - Held-to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has a positive intention and ability to hold to maturity and which have not been designated into one of the other three categories on initial recognition. Such financial assets are carried at amortized cost using the effective interest rate method. The Company has no financial assets in this category.

- *Available-for-sale financial assets* - Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not otherwise classified into the other three categories on initial recognition. These financial instruments are measured at fair value, with gains or losses recognized within other comprehensive income. The Company has no financial assets in this category.

Financial liabilities

At the time of their initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortized cost. Financial liabilities include accounts payable and accrued liabilities, bank debt, amounts due to the Company's shareholder and convertible debentures. Financial liabilities are measured depending on their classification as follows:

- *Financial liabilities at fair value through profit or loss* - Derivative instruments, other than those designated as effective hedging instruments, are included in this category and are further described below. These instruments are designated at fair value through profit or loss upon initial recognition. These liabilities are carried on the statement of financial position at fair value with gains or losses recognized in the income statement. Transaction costs for financial liabilities measured at fair value through profit or loss are expensed as incurred.
- *Financial liabilities measured at amortized cost* - This category of financial liabilities includes accounts payable and accrued liabilities, bank debt, payable due to the Company's shareholder and convertible debentures. These financial liabilities are initially measured at fair value. For bank debt, the fair value is net of issue costs. These financial liabilities are subsequently measured at amortized cost, which is determined using the effective interest method.
- *Derivative instruments* - Various derivative instruments may be used by the Company from time to time to reduce its exposure to market risks from fluctuations in commodity prices, interest rates, and/or foreign exchange rates. Derivative instruments are not used for speculative purposes. While the Company considers all of its transactions in derivative instruments to be economic hedges, the derivative instruments have not been designated as effective accounting hedges, and thus hedge accounting has not been applied. As a result, all derivative instruments are classified at fair value

through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in net income when incurred. The Company has no financial liabilities in this category.

The Company accounts for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements of these physical sales contracts are recognized in oil and natural gas revenue.

Employee benefits

A liability is recognized for the amount expected to be paid under the Company's long-term incentive plan if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably measured.

Foreign Exchange

The Company's transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Canadian dollars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Canadian dollars at the beginning of the year, adjusted for payments and effective interest during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian dollars at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

4. CHANGES IN ACCOUNTING POLICES

Future Accounting Changes

The following new or revised standards are effective beginning on or after January 1, 2013 and are not expected to have an impact on the Company's financial statements although the Company has not completed its evaluation:

- IFRS 10 - *Consolidated Financial Statements* builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11 - *Joint Arrangements* establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.
- IFRS 12 - *Disclosure of Interest in Other Entities* provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.
- IFRS 13 - *Fair Value Measurement* defines fair value, outlines disclosure requirements regarding fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.
- IAS 1 - *Presentation of Financial Statements* has been revised to require other comprehensive income ("OCI") being split into two parts, namely, OCI not reclassified and OCI reclassified, with related tax

following the classification. The intent is to provide clarity around items that are expected to recycle through profit and loss and those that will not.

- IAS 27 - *Separate Financial Statements* revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.
- IAS 28 - *Investments in Associate and Joint Ventures* revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The following standards are new or revised, and are effective for annual periods as noted. Early adoption is permitted for each. Unless otherwise noted, the Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

- IFRS 9 - *Financial Instruments* is intended to replace IAS 39, *"Financial Instruments: Recognition and Measurement"* ("IAS 39"). IFRS 9 will be published in three phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with different transitional arrangements depending on the date of initial application. The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

5. BUSINESS COMBINATION

On December 23, 2011, SIPC, through its indirect wholly-owned subsidiary, 1635905 Alberta Ltd., acquired all of the issued and outstanding common shares and Series D Debentures of Daylight to expand and diversify SIPC’s investments in crude oil and natural gas assets and gain exposure to the North American energy sector. As consideration, 1635905 Alberta Ltd. paid cash of $10.08 per common share for purchase proceeds of approximately $2.2 billion, and $1,110 per $1,000 principal amount of Series D Debentures, plus accrued and unpaid interest to the closing date, totaling $196.6 million.

The goodwill resulting from the acquisition amounted to $573.1 million and can be attributed to an assembled workforce and management team as well as entrance into the Canadian oil and gas market. Goodwill is not deductible for tax purposes. There has been no change to goodwill from the date of acquisition.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

The transaction was accounted for by the acquisition method based on recognized amounts as follows:

Net Assets Acquired		
Property, plant and equipment	$	2,645,525
Exploration and evaluation assets		431,771
Goodwill		573,085
Investment in Gear Energy Ltd.		20,667
Bank debt		(540,329)
Working capital deficiency		(185,541)
Derivative instruments		(242)
Decommissioning obligations		(193,347)
Convertible debentures		(78,455)
Deferred tax liability		(259,701)
Total	$	2,413,433

Consideration		
Cash	$	2,413,433

The requisite number of holders of Daylight's 10% series C unsecured subordinated convertible debentures ("Series C Debentures") did not vote in favour of the Arrangement and therefore the Series C Debentures did not participate in the Arrangement and remained issued and outstanding at December 31, 2011. Sinopec Daylight announced on December 23, 2011 its intention to redeem all of the issued and outstanding Series C Debentures for a cash amount equal to $1,050 per $1,000 principal amount of Series C Debentures, plus accrued and unpaid interest up to but excluding the redemption date of January 23, 2012.

The fair value of receivables included in the working capital deficiency above, was $112.4 million, net of an allowance of $2.9 million.

At December 31, 2011, the Company recorded restricted cash of $82.7 million, representing funds provided by SIPC to be used to either: (i) redeem all the issued and outstanding Series C Debentures, including accrued and unpaid interest up to but excluding the redemption date of January 23, 2012; or (ii) satisfy the cash amount payable to holders of Series C Debentures who converted such debentures for a cash payment, in accordance with their terms, prior to the redemption date of January 23, 2012.

Between January 1, 2012 and January 22, 2012, $5.0 million Series C Debentures were converted by debenture holders, in accordance with their terms in exchange for a cash payment. On January 23, 2012, the Company redeemed all remaining outstanding Series C Debentures by way of a cash payment in the aggregate amount of $73.4 million. This amount represented a payment of $1,050 per $1,000 principal debenture outstanding at January 23, 2012 (the "Redemption Date"). Accrued and unpaid interest up to but excluding the Redemption Date of $0.4 million was also paid which was in addition to interest paid on January 4, 2012 of $3.7 million for the period ended December 31, 2012. The redeemed Series C Debentures were cancelled and delisted from the Toronto Stock Exchange at the close of markets on January 23, 2012.

6. INVESTMENTS

	December 31, 2012		December 31, 2011	
(000s, except number of shares)	**Number of Shares**	**Fair Value**	Number of Shares	Fair Value
Gear Energy Ltd.	**4,316,666**	**$ 9,497**	9,066,666	$ 22,667

Sinopec Daylight holds an investment in Gear Energy Ltd. ("Gear"). Gear is not a listed entity, and there is currently no liquid trading market in respect of Sinopec Daylight's investment in Gear's common shares. During 2012, Sinopec Daylight disposed of 4,750,000 shares at prices ranging from $2.17 to $2.25 per share, resulting in a loss of $1.3 million. At December 31, 2012, the investment in Gear was recorded at fair value, being $2.20 per common share resulting in an unrealized loss of $1.3 million (2011 - $2.0 million unrealized gain). The unrealized gain in 2011 of $2.0 million arose as a result of the receipt of 800,000 common shares in Gear pursuant to the original share rights agreement which were valued at $2.50 per common share.

7. PROPERTY, PLANT AND EQUIPMENT

	Oil and Natural Gas Assets	Corporate	Total
Cost			
Balance at December 31, 2011	**$ 2,642,766**	**$ 10,000**	**$ 2,652,766**
Additions	**736,130**	**8,257**	**744,387**
Property acquisitions	**81,104**	**-**	**81,104**
Capitalized long-term incentives	**8,702**	**-**	**8,702**
Dispositions	**(1,708)**	**-**	**(1,708)**
Change to decommissioning obligations	**34,525**	**-**	**34,525**
Balance at December 31, 2012	**$ 3,501,519**	**$ 18,257**	**$ 3,519,776**
Accumulated depreciation, depletion and amortization			
Balance at December 31, 2011	**$ 5,471**	**$ 58**	**$ 5,529**
Depreciation, depletion and amortization	**336,200**	**4,552**	**340,752**
Dispositions	**(7)**	**-**	**(7)**
Balance at December 31, 2012	**$ 341,664**	**$ 4,610**	**$ 346,274**
Net book value at December 31, 2012	**$ 3,159,855**	**$ 13,647**	**$ 3,173,502**

	Oil and Natural Gas Assets	Corporate	Total
Cost			
Acquisition (note 5)	$ 2,635,582	$ 9,943	$ 2,645,525
Additions	6,899	57	6,956
Change to decommissioning obligations	285	-	285
Balance at December 31, 2011	$ 2,642,766	$ 10,000	$ 2,652,766
Accumulated depreciation, depletion and amortization			
Depreciation, depletion and amortization	$ 5,471	$ 58	$ 5,529
Balance at December 31, 2011	$ 5,471	$ 58	$ 5,529
Net book value at December 31, 2011	$ 2,637,295	$ 9,942	$ 2,647,237

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Amounts Excluded from Calculation of Depreciation, Depletion and Amortization	**Year ended December 31, 2011 2012**	**October 18 to December 31, 2011**
Future salvage value of production equipment and facilities	**$ 25,088**	**$ 25,030**
Undeveloped land and acquired resource properties without proved reserves	**$ 1,250,385**	**$ 1,455,536**

Impairment Tests

Sinopec Daylight performed an impairment test for goodwill with a carrying value of $573.1 million at December 31, 2012. For purposes of impairment testing, goodwill has been assessed with the Company's combined cash generating units which represent the lowest level at which goodwill is monitored for internal management purposes and which are not higher than the Company's single operating segment. The test was based on a fair value less cost to sell calculation. The fair values used in the impairment test were based on the net present value of cash flows discounted at 10% based on the forecasted commodity prices noted below and the fair value of undeveloped land. Consideration was also given to acquisition metrics of recent transactions on similar assets.

Benchmark Reference Price Forecasts	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
WTI *($US/Bbl)*	89.63	89.93	88.29	95.52	96.96	98.41	99.89	101.38	102.91	104.45
Edmonton par *($Cdn/Bbl)*	84.55	89.84	88.21	95.43	96.87	98.32	99.79	101.29	102.81	104.35
AECO *($Cdn/MMBtu)*	3.31	3.72	3.91	4.70	5.32	5.40	5.49	5.58	5.67	5.76
Exchange rate *($US/$Cdn)*	1.001	1.001	1.001	1.001	1.001	1.001	1.001	1.001	1.001	1.001

After 2022, the price forecast for WTI, Edmonton par and AECO escalates at 1.5% per year to the end of the reserve life and the exchange rate remains constant at 1.001.

The key assumptions used to test goodwill for impairment are commodity prices, volumes, discount rates and land values. Benchmark reference prices, as noted above, are provided by independent reserve engineers. Volumes are evaluated by independent reserve engineers and supported by other independent evidence. Land values are based on assessments by independent evaluators and independent evidence. The discount rate is determined based on industry standards and market transactions. At December 31, 2012, it was determined that the fair value exceeded the carrying value of goodwill and therefore no impairment was recorded. Neither a one percent increase in the assumed discount rate nor a five percent reduction in forecasted commodity prices would result in an impairment of goodwill.

8. EXPLORATION AND EVALUATION ASSETS

Cost	
Balance at December 31, 2011	**$ 431,771**
Additions	**57,559**
Property acquisitions	**800**
Change to decommissioning obligations	**258**
Balance at December 31, 2012	**$ 490,388**

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Cost		
Acquisition (note 5)	$	431,771
Balance at December 31, 2011	$	431,771

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves.

9. BANK DEBT

At December 31, 2012, the Company has drawn USD $2.1 billion against an unsecured credit facility with the Bank of China due on December 20, 2016. This loan is guaranteed by CPC and interest is payable based on LIBOR plus a margin. Duration fees are incurred and netted against proceeds on the issuance of this debt with annual duration fees payable on the principal outstanding. These duration fees are offset against the debt and are recognized on a straight line basis with a charge to finance expense to reflect this incremental annual charge. This USD denominated debt is translated to Canadian dollars at the period end rate, with any foreign exchange differences booked to profit and loss.

	Year ended December 31, 2012	October 18 to December 31, 2011
Balance at beginning of period	**$ 1,516,424**	$ -
Advances	**557,387**	1,541,634
Unrealized foreign exchange	**(32,926)**	(16,134)
Prepaid bank financing fees	**(12,263)**	(9,302)
Amortization of prepaid bank financing fees	**11,733**	226
Balance at end of period	**$ 2,040,355**	$ 1,516,424

The Bank of China Facility bears interest at LIBOR plus a specified margin and requires that CPC maintain certain financial covenants as guarantor of the facility (see also note 16). The Facility also requires that the Company comply with certain customary covenants, including compliance with applicable laws. At December 31, 2012, CPC is in compliance with those covenants. Accordingly, the debt is classified as long-term. The amalgamation of 1635905 Alberta Ltd. and Daylight to form Sinopec Daylight on December 23, 2011 resulted in an inadvertent breach of the covenants under the Bank of China Facility. As a result, the bank debt under the Bank of China Facility was classified as current debt at December 31, 2011.

On April 13, 2012, the indebtedness drawn under the Syndicated Canadian Facilities was repaid in full from existing available credit under the Bank of China Facility, and in conjunction therewith, the lenders provided a release to the Company and the security in respect of such facilities was discharged.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

10. FINANCE CHARGES

	Year ended December 31, 2012	October 18 to December 31, 2011
Bank debt interest	**$ 54,000**	$ 1,795
Convertible debenture interest	**463**	184
Interest expense	**54,463**	1,979
Amortization of bank financing fees (note 9)	**11,733**	225
Accretion of decommissioning obligations	**4,961**	128
Total	**$ 71,157**	$ 2,332

11. OTHER LIABILITIES

Other liabilities consist of the Sinopec Daylight's long-term incentive plan. Under the plan, eligible employees receive Restricted or Performance Awards which principally vest on the basis of one third on each anniversary date of the award and are exchangeable for cash consideration upon vesting. Performance Awards are subject to a performance multiplier which is dependent upon the performance of the Company. The cash consideration paid pursuant to long-term incentive awards will vary depending upon the performance of the Company. The $17.2 million (2011 - $nil) current portion of the long-term incentive plan is included in accounts payable and accrued liabilities.

12. DECOMMISSIONING OBLIGATIONS

	Year ended December 31, 2012	October 18 to December 31, 2011
Balance at beginning of period	**$ 193,760**	$ -
Liabilities incurred on corporate acquisition (note 5)	**-**	193,347
Liabilities incurred on property acquisitions	**342**	-
Liabilities transferred on property dispositions	**(432)**	-
Liabilities incurred	**34,391**	285
Liabilities settled	**(19,635)**	-
Change in estimate	**50**	-
Accretion expense	**4,961**	128
Balance at end of period	**$ 213,437**	$ 193,760

Sinopec Daylight's decommissioning obligations result from its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The provision for the costs of reclaiming and abandoning these wells and facilities at the end of their economic lives has been estimated using existing technology, at current prices or long-term assumptions, depending on the expected timing of the activity, and discounted using a risk free rate of 2.5% (2011 – 2.5%). Sinopec Daylight estimates the total undiscounted inflation adjusted cash flow required to settle its decommissioning obligation is approximately $471.1 million (2011 – $426.1 million) which will be incurred before 2062 with the majority of the costs to be incurred between 2019 and 2061. An inflation factor of 2% (2011 – 2%) has been applied to the estimated decommissioning obligations at December 31, 2012.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

13. INCOME TAXES

Tax Expense (Benefit)	**Year ended December 31, 2012**	October 18 to December 31, 2011
Current tax		
Adjustment in respect of prior years	**$ (230)**	$ -
Deferred tax		
Origination and reversal of temporary differences	**$ (32,115)**	$ 2,477
Adjustment in respect of prior years	**(521)**	-
Changes in tax rates	**(109)**	(137)
	$ (32,745)	$ 2,340
Total tax expense (benefit)	**$ (32,975)**	$ 2,340

The adjustments in respect of prior periods relate to events in the current period and reflect the effects of changes in rules, facts or other factors compared with those used in establishing the tax balance in prior periods.

The provision (reduction) for taxes in the consolidated statement of income reflects an effective tax rate which differs from the expected statutory tax rate.

Reconciliation of Effective Tax Rate	**Year ended December 31, 2012**	October 18 to December 31, 2011
Income (loss) before taxes	**$ (113,790)**	$ 18,447
Statutory income tax rate	**25.0%**	26.51%
Expected tax expense (benefit)	**(28,447)**	4,890
Add (deduct):		
Non-taxable portion of capital gains	**(3,802)**	(2,418)
Deferred tax rate adjustments	**(109)**	(137)
Adjustments in respect of prior periods	**(751)**	-
Other	**134**	5
Tax expense (benefit)	**$ (32,975)**	$ 2,340

(all amounts in thousands of Canadian dollars, unless otherwise stated)

In 2012, the blended statutory tax rate was 25.0% (2011 – 26.51%). The decrease from 2011 to 2012 was due to the scheduled Federal rate reduction of 1.5% and a 0.01% decrease due to a change in the blended provincial tax rate.

Movement in and Components of Deferred Tax Liability

For the Year Ended December 31, 2012	December 31, 2011	Charge to Income	December 31, 2012
Deferred tax liabilities:			
Property, plant and equipment and exploration and evaluation assets	$ 460,258	**$ (48,587)**	**$ 411,671**
Debt	2,280	**3,846**	**6,126**
	462,538	**(44,741)**	**417,797**
Deferred tax assets:			
Provisions	(48,460)	**(8,344)**	**(56,804)**
Unrealized gain on investments	-	**(43)**	**(43)**
Share and debt issue costs	(1,363)	**(1,081)**	**(2,444)**
Losses, non-capital and net capital	(150,674)	**21,464**	**(129,210)**
	(200,497)	**11,996**	**(188,501)**
Total	$ 262,041	**$ (32,745)**	**$ 229,296**

Movement in and Components of Deferred Tax Liability

For the Period from Incorporation on October 18, 2011 to December 31, 2011	Acquisition (note 5)	Charge to Income	December 31, 2011
Deferred tax liabilities:			
Property, plant and equipment and exploration and evaluation assets	$ 450,482	$ 9,776	$ 460,258
Debt	-	2,280	2,280
Deferred partnership income	11,167	(11,167)	-
	461,649	889	462,538
Deferred tax assets:			
Provisions	(48,357)	(103)	(48,460)
Unrealized gain on financial instruments	(64)	64	-
Share and debt issue costs	(1,337)	(26)	(1,363)
Losses, non-capital and net capital	(152,190)	1,516	(150,674)
	(201,948)	1,451	(200,497)
Total	$ 259,701	$ 2,340	$ 262,041

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. At December 31, 2012, Sinopec Daylight recognized the benefit of $595.4 million (2011 - $617.8 million) of non-capital losses available to carry forward that would be available to offset against future taxable profit and future taxable capital gains, respectively.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Expiry of Non-capital Losses		
		December 31, 2012
2024	**$**	**107,756**
2025		**5,005**
2026		**267,116**
2027		**1**
2028		**-**
2029		**55**
2030		**1,073**
2031		**214,368**
Total	**$**	**595,374**

At December 31, 2012, Sinopec Daylight had an unrecognized deferred tax liability of $0.8 million for aggregate taxable temporary differences of $3.1 million associated with its investments in subsidiaries because the Company controls whether the profits will be distributed and it is satisfied that it will not be incurred in the foreseeable future.

14. SHAREHOLDER'S EQUITY

The Company is authorized to issue an unlimited number of no-par value common shares.

Issued and Outstanding Common Shares	**Number of Shares**		**Amount**
Issued on Incorporation	100	$	-
Issued on December 21, 2011	1,027,756,000		1,027,756
Balance at December 31, 2011	1,027,756,100		1,027,756
Issued during 2012	667,432,900		667,433
Balance at December 31, 2012	**1,695,189,000**	**$**	**1,695,189**

Restrictions on Share Transfers

No shareholder is entitled to transfer any share to any person who is not a shareholder of the Company unless the transfer is approved by the Board of Directors.

Other Provisions

Other provisions included in the Articles of Incorporation that impact Shareholder's Equity include:

- The number of direct or indirect owners of securities (excluding non-convertible debt securities) of the Company is limited to a maximum of 50, not including employees and former employees of the Company or any of its affiliates.
- Public subscriptions are prohibited.
- The Company has a lien on shares held by a shareholder to provide for any circumstance in which a shareholder has debt owed to the Company.

15. RELATED PARTY TRANSACTIONS

Transactions between related parties are recorded at the exchange amount agreed to between them. Unless otherwise noted in these financial statements, the exchange amount approximates fair value at the date of transaction and is premised on terms common to transactions entered into with arm's length parties. The Company reimbursed its parent company for travel and accommodation expenses. During 2012, another subsidiary of the Company's shareholder provided a USD $25 million dollar loan which was repaid in the year.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

In conjunction with the acquisition of Daylight by 1635905 Alberta Ltd., the Company's shareholder loaned USD $9.5 million to 1635905 Alberta Ltd., USD $9.0 million of which related to financing fees paid on the Bank of China credit facility and which was repaid through the issuance of share capital on January 2, 2012.

Key Management Compensation

Sinopec Daylight's key management personnel have been identified as the nine directors as well as the executive management team of the Company, including the President & Chief Executive Officer (who is also a director), Chief Financial Officer, Chief Legal Officer (who is also a director), Chief Operating Officer and the Executive Vice President Growth Strategy and Business Planning. At December 31, 2012, Sinopec Daylight's executive management team comprises four Canadian citizens and one Chinese citizen. Four of the Company's directors are Canadian citizens.

Key Management Compensation	**Year ended December 31, 2012**	October 18 to December 31, 2011
Salaries, Director Fees and Short-Term Benefits	**$ 3,944**	$ 55
Other Long-Term Benefits	**10,400**	-
Total	**$ 14,344**	$ 55

Other long-term benefits vest over three years and are subject to a performance multiplier which is dependent on the Company's performance (see also note 11).

16. INTER-RELATIONSHIP WITH STATE OWNED ENTERPRISES OF THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

IFRS requires that significant transactions between a government and the reporting entity be disclosed, as well as to explain the nature of the relationship.

The State Council of the PRC is one of three interlocking branches of power in the governing of China. It is the chief administrative authority of the PRC and has approximately 35 members comprised of the Premier, four vice-premiers, five standing committee members and 25 ministers. It oversees more than 80 ministries, institutions (such as the China Investment Corporation "CIC"), state administrations and bureaus, commissions and the special organization referred to as the State-Owned Assets Supervision & Administration ("SASAC").

CPC is controlled by SASAC which reports to the State Council. The Bank of China is controlled by Central Huijin Investment which is part of CIC and CIC reports to the State Council.

Note 9 describes the loan from the Bank of China, obtained to finance the acquisition of Daylight on December 23, 2011 (see also note 5). This loan is guaranteed by CPC.

17. SUPPLEMENTAL DISCLOSURE

Sinopec Daylight's consolidated statements of income and comprehensive income are prepared primarily by nature of expense with the exception of employee compensation costs which are included in both operating and general and administrative expenses. Compensation costs totaling $26.7 million are included in general and administrative expenses (before the impact of overhead recoveries) and $10.4 million are included in operating expenses for the year ended December 31, 2012 ($0.5 million and $0.2 million, respectively for the period from incorporation on October 18, 2011 to December 31, 2011).

(all amounts in thousands of Canadian dollars, unless otherwise stated)

18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital	**Year ended December 31, 2012**	October 18 to December 31, 2011
Source (use) of cash:		
Working capital deficiency acquired (note 5)	**$ -**	$ (185,541)
Accounts receivable	**4,090**	(77,153)
Prepaid expenses and deposits	**(774)**	(4,738)
Accounts payable and accrued liabilities	**(59,046)**	263,745
Change in non-cash working capital	**$ (55,730)**	$ (3,687)
Reconciling item:		
Interest paid less interest expense	**984**	(1,485)
	$ (54,746)	$ (5,172)
Relating to:		
Operating activities	**$ (25,522)**	$ (2,114)
Investing activities	**(29,224)**	(3,058)
Change in non-cash working capital	**$ (54,746)**	$ (5,172)

At December 31, 2012, cash and cash equivalents are all cash in bank and there are no short-term investments.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following tables provide fair value measurement information for financial assets as at December 31, 2012 and 2011. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and amounts due to the Company's shareholder included in the consolidated statements of financial position approximate fair value due to the short term nature of those instruments. The Company's bank debt bears interest at floating market rates and, accordingly, its fair value approximates its carrying amount. These amounts are Level 1 fair value measurements which are fair value measurements based on unadjusted quoted market prices.

Investments held for trading comprising the shares held in Gear are carried at their fair valued using transaction prices obtained from secondary markets and are Level 2 fair value measurements. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 fair value measurements are based on unobservable information. At December 31, 2012, Sinopec Daylight does not have any financial assets and liabilities measured using Level 3 fair value measurements.

Gain (Loss) on Financial Instruments	**Year ended December 31, 2012**	October 18 to December 31, 2011
Unrealized gain (loss) on investment held for trading (note 6)	**$ (1,295)**	$ 2,000
Realized loss on investment held for trading (note 6)	**(1,267)**	-
Realized loss on derivative instruments	**-**	(245)
Unrealized gain on derivative instruments acquired on acquisition	**-**	242
Total	**$ (2,562)**	$ 1,997

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Risk Management Overview

The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Net income, cash flows and the fair value of financial assets may fluctuate due to movement in market prices or as a result of the Company's exposure to credit and liquidity risks. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Sinopec Daylight's management has implemented and continues to maintain and monitor risk management procedures for the benefit of the organization.

The Company's risk management policies are established to: (i) identify and analyze the risks faced by the Company; (ii) set appropriate risk limits and controls; and (iii) monitor risks and consider the implications of market conditions in relation to the Company's activities.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Sinopec Daylight's receivables from joint venture partners and oil and natural gas marketers. As at December 31, 2012, Sinopec Daylight's receivables consisted of $15.1 million (2011 - $24.5 million) from joint venture partners, $55.1 million (2011 – $51.3 million) of receivables from oil and natural gas marketers and $2.9 million (2011 – $1.4 million) of other trade receivables.

Aging of Outstanding Receivable Balances, Net of Allowance	**December 31,**	
	2012	2011
Current (90 days or less)	**$ 68,929**	$ 61,751
Past due (more than 90 days)	**4,134**	15,402
Total	**$ 73,063**	$ 77,153

Sinopec Daylight has provided an allowance for doubtful accounts as at December 31, 2012 of $3.0 million (2011 - $2.9 million).

The Company does not typically obtain collateral from its oil and natural gas marketers or joint venture partners. The credit risk exposure for oil and natural gas marketers is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparty credit quality as well as requiring collateral where deemed appropriate.

Cash and cash equivalents are held by major financial institutions. The credit risk from joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances is dependent on industry factors such as changes in commodity prices, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners from occasional contractual disputes that increase the potential for non-collection. Sinopec Daylight does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

The carrying amount of cash and cash equivalents, accounts receivable and investments represents the Company's maximum credit exposure.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

As is common in the oil and natural gas industry in western Canada, receivables relating to the sale of oil and natural gas are received on or about the 25th day of the following month. As at December 31, 2012, revenues totalling approximately $5 million, $6 million, $8 million, and $11 million were due from four customers. Receivables from each of these customers amounted to more than 10% of total revenues for December 2012.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. Sinopec Daylight's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to Sinopec Daylight's reputation.

Sinopec Daylight has the support of its operating parent, SIPC, and its ultimate parent, CPC. Sinopec Daylight monitors its cash inflows and outflows and required financing for capital expenditures. SIPC provides funding as required. Sinopec Daylight prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Sinopec Daylight utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

As outlined in note 9, the Bank of China Facility provides a $2.1 billion term loan which is repayable on December 20, 2016 and is guaranteed by CPC.

Contractual Maturities of Financial Liabilities	**< 1 Year**	**1 - 2 Years**	**3 - 5 Years**
Accounts payable and accrued liabilities	$ 204,699	$ -	$ -
Other liabilities	-	6,801	3,315
Bank debt - Bank of China principal (note 9)	-	-	2,049,961
Total	**$ 204,699**	**$ 6,801**	**$ 2,053,276**

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's operations, net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. The Company utilizes physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the Company's established risk management procedures.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and United States dollar. The Company may elect to mitigate commodity price risk through the use of various physical delivery sales contracts. Any such transactions are conducted in accordance with the Company's established risk management procedures.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in LIBOR rates will impact the Bank of China Facility, which is subject to floating interest rates. Assuming all other variables remain constant, an increase or decrease of 1% in LIBOR rates in the year ended December 31, 2012 would have decreased or increased net income by $18.5 million. The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2012.

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Carrying Amount of Interest-bearing Financial Instruments	**December 31, 2012**	2011
Bank debt - Bank of China principal (note 9)	**$ 2,049,961**	$ 1,525,500
Bank debt - Syndicated Canadian Facilities	**-**	471,363
Convertible debentures	**-**	78,455
Total	**$ 2,049,961**	$ 2,075,318

Foreign currency exchange rate risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. Therefore, the effects of foreign exchange fluctuations are embedded in the Company's results and the total effect of foreign exchange fluctuations are not separately identifiable. At December 31, 2012, the Company has bank debt owed to Bank of China that is based in US dollars (USD $2.1 billion). Fluctuations in the US dollar exchange rate will impact exchange gains and losses recorded in profit and loss.

The unrealized gain on foreign exchange of $32.9 million for the year ended December 31, 2012 relates to the USD $2.1 billion debt outstanding at December 31, 2012. The unrealized gain on foreign exchange of $16.2 million for the period from incorporation on October 18 to December 31, 2011 related to the USD $1.5 billion debt and USD $9.5 million owing to the Company's shareholder that were outstanding at December 31, 2011.

A $0.01 increase in the US to Canadian exchange rate would have increased the debt recorded by $20.2 million and decreased the unrealized foreign exchange gain by $20.2 million. A $0.01 decrease in the US to Canadian exchange rate would result in the same magnitude of change, but in the opposite direction.

Capital Management

Sinopec Daylight is an indirect subsidiary of CPC through which CPC has invested in Canada's oil and gas industry. CPC strategically oversees its allocation of equity and debt capital based on group needs. CPC, through Sinopec Daylight, maintains hands-on involvement in the day-to-day management of cash inflows and outflows and determines equity needs and debt borrowings for the longer term. Sinopec Daylight targets to fully finance its capital expenditures over the longer term but may not fully finance these expenditures within a quarterly or annual period. Funds from operations is based on cash provided by operating activities before the change in non-cash operating working capital and decommissioning expenditures less interest expense on bank debt.

Capital Structure	**December 31, 2012**	2011
Bank debt - Bank of China principal (note 9)	**$ 2,049,961**	$ 1,525,500
Due to the Company's shareholder	**-**	9,662
Bank debt - Syndicated Canadian Facility	**-**	471,363
Convertible debentures	**-**	78,455
Working capital deficiency (excluding bank debt, convertible debentures and due to Company's shareholder)	**122,787**	99,192
Net debt	**$ 2,172,748**	$ 2,184,172
Shareholder's equity	**$ 1,630,481**	$ 1,043,863

The Company monitors its capital structure and the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, as defined above, divided by trailing funds from operations on an annualized basis. The Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices and production levels, the success of the capital expenditure program and general industry conditions. The Company also monitors its capital structure and debt position using debt to capitalization. At December 31, 2012, Sinopec Daylight's debt to capitalization ratio was 57% calculated as follows:

(all amounts in thousands of Canadian dollars, unless otherwise stated)

Net debt to Capitalization Ratio	**December 31,**	
	2012	2011
Bank debt - Bank of China principal (note 9)	**$ 2,049,961**	$ 1,525,500
Due to the Company's shareholder	**-**	9,662
Convertible debentures	**-**	78,455
Bank debt - Syndicated Canadian Facility	**-**	471,363
Working capital deficiency excluding bank debt, convertible debentures and due to Company's shareholder)	**122,787**	99,192
Net debt	**$ 2,172,748**	$ 2,184,172
Shareholder's Equity	**1,630,481**	1,043,863
Capitalization	**$ 3,803,229**	$ 3,228,035
Net debt to Capitalization	**57%**	68%

20. COMMITMENTS AND CONTINGENCIES

The following is a summary of Sinopec Daylight's contractual obligations and commitments as at December 31, 2012:

Commitments	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Operating leases	$ 9,924	$ 7,205	$ 6,568	$ 6,517	$ 6,053	$ 10,660
Capital commitments	40,602	39,262	44,317	34,348	23,236	-
Natural gas transportation	3,277	2,665	1,523	564	179	56
Bank debt - Bank of China principal (note 9)	-	-	-	2,049,961	-	-
	$ 53,803	$ 49,132	$ 52,408	$ 2,091,390	$ 29,468	$ 10,716

As disclosed in note 9, an annual duration fee is payable on the outstanding balance for each draw on the Bank of China Facility. The duration fee is due on the anniversary date of each draw.

In addition to the above, the following commitment and contingencies exist at December 31, 2012:

Legal Claims Contingency

Sinopec Daylight is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material adverse impact on Sinopec Daylight's financial position or results of operations.

Income and Other Tax Uncertainties

The Company files income tax, goods and services tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Company does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

21. SUBSEQUENT EVENT

On January 1, 2013, the Company amalgamated with 1603429 Alberta Ltd., another subsidiary of SIPC, and continues to carry on business under the name of Sinopec Daylight Energy Ltd.

Corporate Information

Board of Directors

Hou Hongbin
Chairman, Sinopec Daylight Energy Ltd.
Vice President, Sinopec International Petroleum Exploration and Production Corporation
Beijing, China

Anthony Lambert
President and Chief Executive Officer
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Deng Hanshen *(2) (3)*
Deputy Director General
China Petrochemical Corporation
Beijing, China

Zhang Lianhua *(1) (2) (3)*
President
Sinopec Canada Energy Ltd.
Calgary, Alberta

Yin Pengfei *(1) (3)*
President
SinoCanada Petroleum Corporation
Calgary, Alberta

Michael Laffin *(1) (2) (3) (4)*
Partner
Blake, Cassels & Graydon LLP
Calgary, Alberta

Rick Orman *(1) (2) (3) (4)*
Independent Businessman
Calgary, Alberta

Cameron Proctor
Chief Legal Officer and Corporate Secretary
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Members of the following Committees:
(1) Audit
(2) Environment, Health & Safety and Reserves
(3) Corporate Governance
(4) Independent Director

Executives and Senior Officers

Anthony Lambert
President and Chief Executive Officer

Steve Nielsen
Chief Financial Officer

Cameron Proctor
Chief Legal Officer and Corporate Secretary

Derek McCoubrey
Chief Operating Officer

Hong Luo
Executive Vice President, Growth Strategy and Business Planning

Brian Tuffs
Executive Vice President, Business Development and Exploration

Pamela Kazeil
Vice President, Finance

William Lacey
Vice President, Marketing and Joint Ventures

Auditors

KPMG LLP
Chartered Accountants
Calgary, Alberta

Evaluation Engineers

Sproule Associates Limited
Calgary, Alberta

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