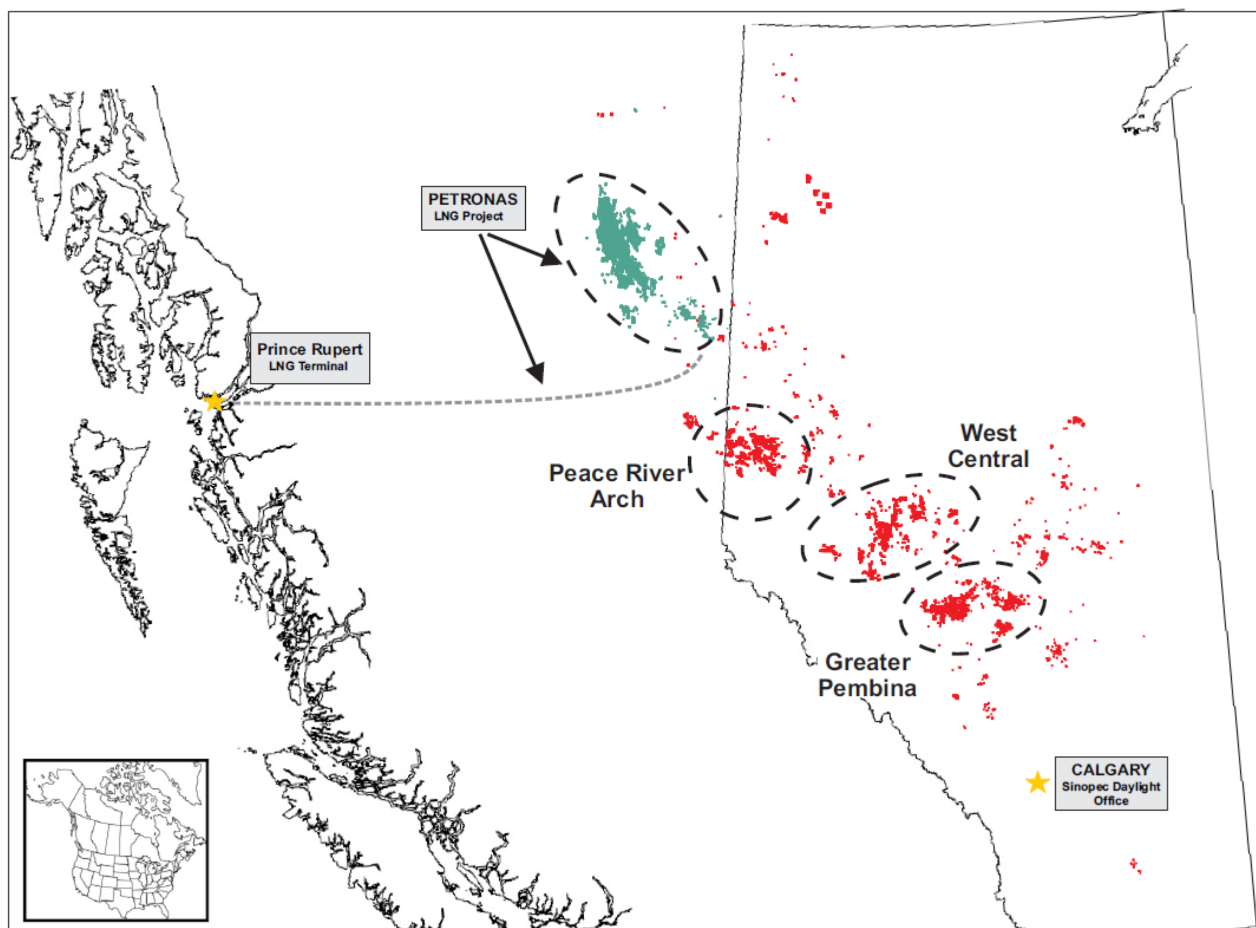
SINOPEC DAYLIGHT ENERGY LTD.
Annual Report 2014

Operating Areas



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Message to Stakeholders

We are pleased to report on another dynamic year for Sinopec Daylight Energy Ltd. ("Sinopec Daylight", or the "Company"). 2014 represented our third full year of operations following the December 2011 acquisition of Daylight Energy Ltd. ("Daylight") by Sinopec International Petroleum Exploration and Production Corporation ("SIPC") and witnessed a number of exciting developments.

Sinopec Daylight's continued pursuit of its strategic vision resulted in its July acquisition of a ten percent working interest in the Pacific Northwest (PNW) LNG project led by Petroliam Nasional Berhad ("Petronas") and Progress Energy Canada Ltd. ("Progress"). As a result of the acquisition, the Company substantially expanded its asset base in northeast British Columbia and reached daily production rates of greater than 48,000 boe/d in the second half of 2014. In addition to positioning the Company as a leading participant in the development of Canada's nascent LNG industry, the PNW project has the potential to create significant economic and social benefits for local communities, the province of British Columbia and Canada as a whole.

Sinopec Daylight had another strong year in the field and in the community. Our capital expenditures in 2014 totalled $2.3 billion. Our exploration and development focus continues to be on our core oil and liquids-rich natural gas assets in the Pembina and Wapiti areas, respectively, with particular progress made in 2014 on delineating our Montney assets and addressing regional infrastructure constraints in the Wapiti area. We also remain dedicated to giving back to the public and supporting communities where we operate, with community and charitable spending exceeding $335,000 in 2014. We continue to proudly support and match the generosity of our employees who have once again shown a willingness to make significant individual contributions to charitable activities through the giving of their time and money.

Indeed, none our successes would be possible without the depth and range of experience of our dedicated staff. At December 31, 2014, Sinopec Daylight's workforce included 354 full-time employees, with Mr. Brian Tuffs as our Chief Executive Officer following his appointment on October 17, 2014. SIPC will rely heavily upon our executive management's knowledge and longstanding track record of success in formulating and overseeing the execution of Sinopec Daylight's business plan into the future.

As we reflect back on a successful year, much attention has been given to the challenging market conditions which have recently affected the global energy industry and create uncertainty for 2015. While Sinopec Daylight is not immune to these markets conditions, we believe that we are well-positioned to respond to these challenges and to continue to refine and strengthen the core of our business. We have every reason to be confident in the future success of our organization and are committed to the continued improvement and growth of our business in 2015 and beyond.

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.sinopeccanada.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.sinopeccanada.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.sinopeccanada.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. Balloch and Laffin are "independent" for the purposes of Sinopec Daylight's Corporate Governance practices and applicable regulatory standards. In determining that Messrs. Balloch and Laffin are independent and do 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 Messrs. Balloch and Laffin:

- are not and have 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;
- have 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;

- are not a current partner or employee of KPMG LLP, our external auditors, nor within the past three years have 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);
- are not and have 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 have served on that other company's compensation committee; and
- are not and have 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 US $1,000,000 or 2% of such other entity's consolidated gross revenues.

2014 Board Meetings

There were four meetings of the Board in 2014, all of which were held in Canada.

Members	2014 Meeting Attendance
Feng Zhiqiang (Chairman)	2/4
Deng Hanshen	1/4
Zhang Lianhua	4/4
Yin Pengfei (1)	4/4
Luo Hong (2)	4/4
Michael Laffin (3)	4/4
Howard Balloch (3) (4)	4/4
Brian Tuffs (5)	2/4
Derek McCoubrey (6)	2/4
Steve Nielsen (7)	2/4
Mou Hansheng (8)	0/0
Li Jinhong (9)	0/0

(1) Mr. Yin ceased to be a director effective May 29, 2015.
(2) Mr. Luo ceased to be a director effective July 7, 2015.
(3) Independent Director.
(4) Mr. Balloch was appointed to the Board effective May 10, 2014.
(5) Mr. Tuffs was appointed to the Board effective November 6, 2014 and therefore was not a director at the time of the Board meetings on June 13-14, 2014 and September 9, 2014.
(6) Mr. McCoubrey was appointed to the Board effective November 21, 2014 and therefore was not a director at the time of the Board meetings on June 13-14, 2014 and September 9, 2014.
(7) Mr. Nielsen ceased to be a director effective November 17, 2014 and therefore was not a director at the time of the Board meetings on November 21, 2014 and December 12, 2014.
(8) Mr. Mou was appointed to the Board effective June 11, 2015 and therefore was not a director at the time of the 2014 Board meetings.
(9) Ms. Li was appointed to the Board effective July 20, 2015 and therefore was not a director at the time of the 2014 Board meetings.

Committees of the Board

The Board fulfills its mandate, in part, through four standing subcommittees, each with a clearly defined charter. These are the Audit Committee, the Corporate Governance Committee, the Environment, Health & Safety and Reserves Committee, and the Human Resources & Compensation 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.sinopeccanada.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 2014.

Members	2014 Meeting Attendance
Deng Hanshen (Chair)	1/3
Zhang Lianhua	3/3
Michael Laffin (1)	3/3
Howard Balloch (1) (2)	3/3

(1) Independent Director.
(2) Mr. Balloch was appointed to the Audit Committee effective June 13, 2014.

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.sinopeccanada.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 three meetings of the Corporate Governance Committee in 2014.

Members	2014 Meeting Attendance
Michael Laffin (Chair) (1)	3/3
Deng Hanshen	1/3
Zhang Lianhua	3/3
Howard Balloch (1) (2)	3/3

(1) Independent Director.
(2) Mr. Balloch was appointed to the Corporate Governance Committee effective June 13, 2014.

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.sinopeccanada.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 three meetings of the Environment, Health & Safety and Reserves Committee in 2014.

Members	2014 Meeting Attendance
Zhang Lianhua (Chair)	3/3
Deng Hanshen	1/3
Michael Laffin (1)	3/3
Howard Balloch (1) (2)	3/3

(1) Independent Director.
(2) Mr. Balloch was appointed to the Corporate Governance Committee effective June 13, 2014.

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.sinopeccanada.com.

Human Resources & Compensation Committee

Sinopec Daylight’s Human Resources & Compensation Committee was formed effective December 12, 2014 and assists the Board in fulfilling its responsibilities with respect matters relating to the Company’s human resource policies and the compensation of its directors, officers and employees. This includes (i) reviewing the establishment of performance objectives and individual key performance indicators for executive officers; (ii) administering the long term incentive plan approved by the Board and any other incentive plans implemented by Sinopec Daylight, in accordance with their terms; (iii) reviewing and recommending to the Board succession planning for senior management and managers in other key positions; and (iv) reviewing key human resources policies and procedures and any significant changes thereof.

There was one meeting of the Human Resources & Compensation Committee in 2014.

Members	2014 Meeting Attendance
Howard Balloch (Chair) [(1)]	1/1
Deng Hanshen	1/1
Zhang Lianhua	1/1
Michael Laffin [(1)]	1/1

(1) Independent Director.

The Human Resources & Compensation Committee Mandate and Terms of Reference and the Terms of Reference for The Human Resources & Compensation Committee Chair are available on our website under "Responsibility – Corporate Governance" at www.sinopeccanada.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 regular presentations from senior management with respect to the operations and risks of Sinopec Daylight's business, commentary on commodity outlooks and trends, and updates 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.

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. This is critical to ensuring the health and well-being of not only our employees, contractors and sub-contractors, but also of the public.

We continually communicate learnings from near miss, hazard identification and recordable incident summaries with corrective action recommendations to representatives across the organization to help identify potentially unsafe conditions for the ultimate purpose of preventing future incidents before they can occur. Our model of establishing long-term relationships with contractors and vendors has helped to 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 of our operating facilities and lease sites to ensure the integrity of our systems and operations.

Sinopec Daylight is committed to responding efficiently and effectively to any alert or emergency and has developed an emergency response plan which acts as a guide for effective management of our emergency response operations. We perform regular emergency response training exercises, tailored to the demands of our specific operating areas, to ensure that our personnel are prepared in the unlikely event that an emergency event should occur. We are also 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.

In June, 2014, Sinopec Daylight hosted a Sinopec Group Level Emergency Response exercise involving our Violet Grove facility. This exercise was a coordinated effort of Sinopec Daylight’s emergency response team, the emergency response center of China Petrochemical Corporation ("Sinopec Group") and various SIPC and Sinopec Group executives. Real-time video feeds of the exercise were streamed to SIPC and Sinopec Group's offices in Beijing, in addition to being viewed by the Alberta Energy Regulator. The exercise was the first of its kind and scope to involve one of SIPC's overseas units and its successful execution has become a benchmark used by Sinopec Group as part of its global oil and gas operations.

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, we are an active member of the Canadian Association of Petroleum Producers, 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 2014, Sinopec Daylight had 350 former facility or well sites under active surface remediation. During 2014, we received 18 reclamation certificates.

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 Canada 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 2014, Sinopec Daylight contributed over $335,000 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:

The Calgary Zoo

The Calgary Zoo is a longstanding and significant member of Calgary's community fabric, offering a number of educational and informative programs for children and families. The Calgary Zoo also takes great pride in hosting cultural events and will be presenting the first Illuminasia Lantern & Garden Festival to take place in Canada. Sinopec Daylight donated $100,000 the Calgary Zoo in 2014 and is proud to be the sole presenting sponsor for this traditional Chinese festival in the fall of 2015.

Wood's Homes

Wood's Homes is a community owned and operated children's mental health center 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 2014, Sinopec Daylight contributed approximately $92,000 to Wood's Homes and has contributed nearly $650,000 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 $38,000 to the Alberta Children's Hospital Foundation in 2014 and has raised a total of approximately $223,000 in conjunction with multiple events since 2012.

EvenStart Foundation

The EvenStart Foundation believes that when children are fed, in good health, have access to education, live in homes that are safe, then children learn that they are valued and loved and are free to realize their potential. By allowing children to have every possible advantage at an early age, difficult early life experiences can be mitigated, which in turn creates a stronger community and a brighter future for everyone. In 2014, Sinopec Daylight contributed $21,000 to the EvenStart Foundation.

The following is the Management Report (the "Report") for Sinopec Daylight for the year ended December 31, 2014. The Company was formed as 1720353 Alberta Ltd. on January 1, 2013 by the amalgamation of Sinopec Daylight Energy Ltd. and 1603429 Alberta Ltd under the *Business Corporations Act* (Alberta) (the "ABCA"), and changed its name to "Sinopec Daylight Energy Ltd." on January 1, 2013. Prior thereto, the Company was formed pursuant to a plan of arrangement (the "Arrangement") completed in accordance with the provisions of the ABCA, effective December 23, 2011, whereby 1635905 Alberta Ltd. and Daylight Energy Ltd. ("Daylight") amalgamated to form Sinopec Daylight Energy Ltd. Sinopec Daylight 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 Western Canada. 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.

A copy of the 2014 Annual Summary Reserve Report for Sinopec Daylight is available on our website under "Financial – Reports" at www.sinopeccanada.com.

This Report should be read in conjunction with the accompanying audited consolidated financial statements and notes for the years ended December 31, 2014 and 2013, which are included in this Annual Report. The consolidated financial statements and other financial data presented have been prepared in accordance with *International Financial Reporting Standards* ("GAAP" or "IFRS"), as reflected in the financial statements. 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.

"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.

"Funds from Operations" is a term utilized by Sinopec Daylight to evaluate operating performance and assess leverage. All references to funds from operations throughout this Report are based on cash provided by operating activities before the change in non-cash operating working capital and asset retirement expenditures less interest expense and long-term employee benefits. Funds from operations does not represent net income (loss) for the year 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		Year ended December 31,		
(millions)		**2014**		2013
Cash provided by operating activities	**$**	**644**	$	696
Change in non-cash operating working capital		**30**		(40)
Asset retirement expenditures		**30**		33
Employee benefits		**(9)**		19
Funds from operations	**$**	**695**	$	708

"Boe" is a term utilized by Sinopec Daylight in relation to reserves or production to combine the volumetric measures of natural gas, 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. 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.

RESULTS OF OPERATIONS

OVERVIEW

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. The Company's direct parent is Sinopec Canada Energy Ltd. ("SCEL").

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.

Corporate Reorganization

On January 1, 2013, the Company undertook a corporate reorganization in which:

i) SCEL acquired 100% of the equity interest in Sinopec Daylight from its parent company in exchange for common shares of SCEL and assumed the outstanding bank debt of the Company in exchange for common shares in the Company;

ii) SCEL sold its equity interest in the Company to 1603429 Alberta Ltd., another 100% wholly-owned subsidiary of SCEL, in exchange for common shares of 1603429 Alberta Ltd.; and,

iii) Sinopec Daylight and 1603429 Alberta Ltd. amalgamated to form Sinopec Daylight Energy Ltd.

As a result of the reorganization, the Company now owns a 98% interest in Sinopec Oil Sands Partnership ("SOP"). SOP holds a 9.03% working interest in the Syncrude Joint Venture ("Syncrude").

This corporate reorganization meets the definition of a "business combination of entities under common control" since all the entities involved in the arrangement are under the common control of SCEL or its direct parent company. Accordingly, the assets and liabilities of these entities have been accounted for at their historical carrying amounts. The results of operations represent the consolidated financial position, consolidated net earnings and consolidated cash flows on a prospective basis from the date of the corporate reorganization on January 1, 2013.

Business Combination

On July 16, 2014, the Company, through its subsidiaries, acquired a 15% interest in certain Petroliam Nasional Berhad natural gas assets ("PNW") in exchange for cash of $1.6 billion. These assets include natural gas

producing properties and reserves in northeast British Columbia. In addition to this purchase, SCEL, through its subsidiaries, also invested in the proposed Pacific Northwest Liquefied Natural Gas ("LNG") export facility on Canada's West Coast and agreed to offtake 1.8 million metric tonnes of LNG per annum from the LNG facility's production, representing 15% of the proposed LNG production ("LNG Offtake Assets"), for a minimum period of 20 years. These acquisitions were completed with China Huadian Corporation ("Huadian"), whereby the Company owns two-thirds and Huadian owns one-third of the interest in the natural gas assets and LNG investment. In addition to the above noted LNG Offtake Assets, Sinopec has further committed to an additional 25% of the LNG Offtake Assets (an additional 3 million metric tonnes per annum) from this project.

These acquisitions were completed with Huadian. The Company and Huadian together created two separate entities, being Sinopec Huadian Canada LNG Ltd. ("SHCLL") and Sinopec Huadian Montney Limited Partnership ("SHMLP") which hold a 15% interest in the natural gas assets and a 15% interest in the shares and limited partnership units that hold the Pacific Northwest LNG export facility project. SHCLL is the general partner to SHMLP. The Company owns two-thirds of the shares and limited partnership units of these entities and by virtue of having a greater proportion of the Board of Directors seats and common shares and maintaining the key management positions is considered to control the entities. Huadian owns the other one-third of the entities and is considered a non-controlling interest holder.

SEGMENTS

As a result of its PNW business combination in 2014 and its 2013 reorganization in which the Company acquired a 98% ownership in SOP, the Company now has three operating segments which all operate in Canada. The Company's Development and Production ("D&P") segment represents conventional oil and gas assets and reflects the continuation of Sinopec Daylight's previous operations. The Company recognizes its joint arrangement with Syncrude as a joint operation and accordingly records its share of the assets, liabilities, revenues and expenses (proportionately consolidates) of this operation which are represented as the Oil Sands segment. The Company's PNW segment represents the Company's 15% investment in certain natural gas producing properties acquired from Petroliam Nasional Berhad and the proposed Pacific Northwest LNG export facility on Canada's west coast. The Corporate segment includes company-wide costs for general and administrative and financing activities.

D&P Segment

Sinopec Daylight's D&P segment produces oil and natural gas from 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 2014, the D&P segment executed on its long-term plan of developing high quality assets in its core areas drilling 74 gross (49.2 net) wells during the year investing $403 million on projects that include its Cardium light oil resource play and Rock Creek liquids rich natural gas resource plays in Greater Pembina; Montney and Dunvegan liquids rich natural gas plays in Peace River Arch; as well as multiple natural gas and oil plays in the West Central Area of Alberta.

Oil Sands Segment

SOP holds a 9.03% interest in Syncrude, a major producer of high quality, low sulphur, light, synthetic crude oil ("SCO"). Syncrude is involved in the mining of bitumen from its oil sands leases located in the Athabasca oil sands deposit in Northern Alberta and the upgrading of the bitumen to SCO. Syncrude is a joint operation jointly controlled by seven owners. Decisions about Syncrude's significant relevant activities require unanimous consent of the owners. Each owner retains title to its proportionate interest in the property and assets, takes its proportionate share of production in kind, and funds its proportionate share of Syncrude's operating development and capital costs on a daily basis. The Company also owns 9.03% of the issued and outstanding shares of Syncrude Canada Ltd. ("Syncrude Canada"). Syncrude Canada operates Syncrude on behalf the

owners and is responsible for selecting, compensating, directing and controlling Syncrude's employees, and for administering all related employment benefits and obligations. Syncrude Canada has no beneficial interest in the project and holds, as agent, the property and assets of the owners.

PNW Segment

Sinopec Daylight's PNW segment produces natural gas and NGLs from two main areas in the foothills of northeast British Columbia and the deep basin in northwest Alberta, both of which are located in the Western Canadian Sedimentary Basin. There are two main play types found in both areas that are exploited: tight gas and Montney shales and silts.

COMMODITY PRICES UNDERLYING FINANCIAL RESULTS

Key performance drivers for the Company's financial results include commodity prices and price differentials as well as the US/Canadian dollar exchange rate. The following table shows selected market benchmark prices and the US/Canadian dollar average exchange rates to assist in understanding the Company's results.

Market Prices	**Year ended December 31,**	
	2014	2013
AECO Index *($Cdn/Mcf)*		
Daily Index	**$ 4.51**	$ 3.17
Monthly Index	**4.42**	3.16
AECO average Index	**$ 4.46**	$ 3.17
WTI ($US/Bbl)	**$ 93.00**	$ 97.93
Edmonton par *($Cdn/Bbl)*	**$ 94.53**	$ 93.34
Exchange rate *($US/$Cdn)*	**0.9052**	0.9710

Oil 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 in its D&P segment 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.

Sinopec Daylight's realized oil price in its Oil Sands segment also has a high correlation to WTI. Production is marketed in US dollars so it is not exposed to the US to Canadian dollar exchange rate on sales. WTI and the SCO differential to WTI reflect supply and demand fundamentals and are impacted by North American crude oil production, refinery modifications and pipeline capacity.

Natural Gas 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's D&P segment markets its natural gas through a combination of the daily AECO index price and monthly AECO index price contracts. The PNW segment markets its natural gas through daily AECO index price contracts. As a result, the Company's realized natural gas price is compared to AECO index prices.

Natural Gas Liquids Prices

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.

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Year ended December 31, 2014				Year ended December 31, 2013			
(millions, unless otherwise stated)	**D&P**	**Oil Sands**	**PNW**	**Total**	D&P	Oil Sands	PNW	Total
Oil and natural gas revenues	**$ 662**	**$ 845**	**$ 56**	**$ 1,563**	$ 643	$ 882	$ -	$ 1,525
Royalties	**(86)**	**(55)**	**(4)**	**(145)**	(86)	(46)	-	(132)
Operating expenses	**(211)**	**(416)**	**(19)**	**(646)**	(230)	(363)	-	(593)
Transportation expenses	**(9)**	**(4)**	**(4)**	**(17)**	(10)	(4)	-	(14)
Operating netback[(1)]	**$ 356**	**$ 370**	**$ 29**	**$ 755**	$ 317	$ 469	-	$ 786
Development expenses	**-**	**(28)**	**-**	**(28)**	-	(37)	-	(37)
Exploration expenses	**(23)**	**-**	**-**	**(23)**	(14)	-	-	(14)
Equity loss in associates	**-**	**-**	**(2)**	**(2)**	-	-	-	-
Gain (loss) divestiture of assets	**19**	**(6)**	**1**	**14**	10	(5)	-	5
Depletion, depreciation and amortization	**(396)**	**(155)**	**(18)**	**(569)**	(357)	(120)	-	(477)
Operating segment earnings (loss)	**$ (44)**	**$ 181**	**$ 10**	**$ 147**	$ (44)	$ 307	$ -	$ 263
Corporate segment:								
Depreciation and amortization				**(8)**				(7)
General and administrative				**(49)**				(52)
Finance charges				**(10)**				4
Foreign exchange gain				**451**				321
Loss on financial instruments				**(3)**				4
Income tax expense				**(103)**				(93)
Net income				**$ 425**				$ 440
Cash provided by operating activities	**$ 316**	**$ 290**	**$ 38**	**$ 644**	$ 314	$ 382	$ -	$ 696
Cash capital expenditures:								
Operating segments	**$ 403**	**$ 208**	**$ 1,725**	**$ 2,336**	$ 610	$ 301	-	$ 911
Corporate				**$ 4**				$ 4
Working capital (deficiency)				**$ (1,114)**				$ 86
Total assets				**$20,412**				$17,058

(1) "See Non-GAAP Measures"

CONSOLIDATED OPERATIONAL HIGHLIGHTS

	Year ended December 31, 2014				Year ended December 31, 2013			
	D&P	**Oil Sands**	**PNW**	**Total**	D&P	Oil Sands	PNW	Total
Average daily production								
Natural gas *(Mcf/d)*	**151,442**	**-**	**31,256**	**182,698**	145,420	-	-	145,420
Oil *(Bbls/d)*	**7,995**	**23,290**	**173**	**31,458**	10,783	24,112	-	34,895
NGLs *(Bbls/d)*	**5,921**	**-**	**276**	**6,197**	5,672	-	-	5,672
Oil & NGLs *(Bbls/d)*	**13,916**	**23,290**	**449**	**37,655**	16,455	24,112	-	40,657
Combined *(boe/d)*	**39,157**	**23,290**	**5,659**	**68,105**	40,691	24,112	-	64,803
Average prices received								
Natural gas *($/Mcf)*	**$ 4.63**	**$ -**	**$ 3.84**	**$ 4.51**	$ 3.25	$ -	$ -	$ 3.25
Oil *($/Bbl)*	**91.23**	**99.44**	**82.93**	**97.27**	88.88	100.27	-	96.75
NGLs *($/Bbl)*	**64.15**	**-**	**65.95**	**64.23**	58.00	-	-	58.00
Oil & NGLs *($/Bbl)*	**79.71**	**99.44**	**72.48**	**91.83**	78.24	100.27	-	91.33
Combined *($/boe)*	**$ 46.31**	**$ 99.44**	**$ 26.94**	**$ 62.87**	$ 43.26	$100.27	$ -	$ 64.47
$ per boe								
Oil and natural gas revenues	**$ 46.31**	**$ 99.44**	**$ 26.94**	**$ 62.87**	$ 43.26	$ 100.27	$ -	$ 64.47
Royalties	**(6.08)**	**(6.43)**	**(1.76)**	**(5.84)**	(5.86)	(5.17)	-	(5.61)
Operating expenses	**(14.75)**	**(48.93)**	**(9.09)**	**(25.97)**	(15.48)	(41.28)	-	(25.08)
Transportation expenses	**(0.64)**	**(0.47)**	**(1.88)**	**(0.69)**	(0.62)	(0.50)	-	(0.57)
Operating netback[(1)]	**$ 24.84**	**$ 43.61**	**$ 14.21**	**$ 30.37**	$ 21.30	$ 53.32	$ -	$ 33.21

(1) "See Non-GAAP Measures"

CONSOLIDATED FUNDS FROM OPERATIONS

(millions, unless otherwise stated)	**Year ended December 31, 2014**	2013
Operating netback[(1)]	**$ 755**	$ 786
General and administrative	**(49)**	(52)
Development expenses	**(28)**	(37)
Cash exploration expenses	**(2)**	(1)
Cash finance charges	**-**	1
Realized foreign exchange loss	**14**	12
Cash taxes	**5**	(1)
Funds from operations[(1)]	**$ 695**	$ 708
$ per boe		
Operating netback[(1)]	**$ 30.37**	$ 33.21
General and administrative	**(1.97)**	(2.20)
Development expenses	**(1.13)**	(1.57)
Cash exploration expenses	**(0.08)**	(0.05)
Cash finance charges	**-**	0.03
Realized foreign exchange loss	**0.56**	0.52
Cash taxes	**0.20**	(0.02)
Funds from operations[(1)]	**$ 27.95**	$ 29.92

(1) "See Non-GAAP Measures"

D&P SEGMENT

D&P Operating Netback

	Year ended December 31,	
$ per boe	**2014**	2013
Oil and natural gas revenues	**$ 46.31**	$ 43.26
Royalties	**(6.08)**	(5.86)
Operating expenses	**(14.75)**	(15.48)
Transportation expenses	**(0.64)**	(0.62)
Total	**$ 24.84**	$ 21.30

The increase in operating netback in 2014 from 2013 is a result from an increase in overall commodity prices and lower operating expenses which were partially offset by higher royalties.

D&P Production Volumes by Commodity

	Year ended December 31,	
	2014	2013
Natural gas *(Mcf/d)*	**151,442**	145,420
Light oil *(Bbls/d)*	**7,995**	10,783
NGLs *(Bbls/d)*	**5,921**	5,672
Combined oil & NGLs *(Bbls/d)*	**13,916**	16,455
Combined all products *(boe/d)*	**39,157**	40,691

The D&P segment's average production volumes for 2014 was lower than the average daily production in 2013 due to declines in the light oil production.

D&P Realized Prices

	Year ended December 31,	
	2014	2013
Natural gas *($/Mcf)*	**$ 4.63**	$ 3.25
Light oil *($/Bbl)*	**91.23**	88.88
NGLs *($/Bbl)*	**64.15**	58.00
Combined oil & NGLs *($/Bbl)*	**$ 79.71**	$ 78.24
Combined all products *($/boe)*	**$ 46.31**	$ 43.26

The D&P segment markets its natural gas through contracts based on daily and monthly AECO index pricing. The D&P segment sold approximately 48% of its production at the monthly AECO index price in 2014. The D&P segment's natural gas price during 2014 was $4.63 per Mcf, a 4% premium to the average of the daily and monthly AECO index prices during the year. The D&P segment's realized price represents a 42% increase 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 2013 which is consistent with the increase in the average of the daily and monthly AECO index prices between these two years.

The D&P segment's 2014 light oil realized $91.23 per Bbl, 97% of Edmonton par, as compared to $88.88 per Bbl in 2013, 95% of Edmonton par. The realized price is higher in 2014 compared to 2013 despite a lower WTI price due to the weakening of the Canadian dollar versus the US dollar in 2014.

Changes in the US to Canadian dollar exchange rate affect Canadian dollar Edmonton par and The D&P segment's realized light oil price relative to 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 2014 was 0.9052 which generally put upward pressure on Edmonton

par and Sinopec Daylight's realized light oil price during the year as compared to the exchange rate for the year ended December 31, 2013 of 0.9710.

The D&P segment's 2014 NGLs realized $64.15 per Bbl, 68% of Edmonton par, represented a 10% increase from the NGLs realized price of $58.00 per Bbl, 62% of Edmonton par, for the year ended December 31, 2013.

The D&P segment's combined oil and NGLs price for 2014 was $79.71 per Bbl, 2% higher than $78.24 per Bbl for the year ended December 31, 2013.

D&P Revenue

(millions)	**Year ended December 31,**	
	2014	2013
Natural gas	**$ 257**	$ 173
Light oil	**266**	350
NGLs	**139**	120
Total	**$ 662**	$ 643

Natural gas revenue for 2014 was 49% higher than 2013 due to significantly improved AECO prices and higher natural gas production. Light oil revenues declined 24% in 2014 from 2013 due to reduced volumes partially offset by higher pricing. NGLs revenues were 16% higher in 2014 in comparison to 2013 due to higher pricing and volumes. D&P Segment revenues were 3% higher than 2013 due to higher volumes and prices for natural gas and NGLs.

D&P Royalties

By Type	**Year ended December 31,**	
(millions, unless otherwise stated)	**2014**	2013
Crown royalties	**$ 70**	$ 69
Freehold royalties	**2**	3
Overriding royalties	**14**	15
Total	**$ 86**	$ 87
$ per boe	**$ 6.08**	$ 5.86
% of revenue	**13.1**	13.6

By Commodity	**Year ended December 31,**	
(millions, unless otherwise stated)	**2014**	2013
Natural gas	**$ 1**	$ (3)
Oil and NGLs	**85**	90
Total	**$ 86**	$ 87
Natural gas *($/mcf)*	**$ 0.01**	$ (0.05)
Oil and NGLs *($/bbl)*	**$ 16.95**	$ 14.94
Total *($/boe)*	**$ 6.08**	$ 5.86
Natural gas (*% of revenue*)	**0.3**	(1.5)
Oil and NGLs (*% of revenue*)	**21.3**	19.1
Total (*% of revenue*)	**13.1**	13.6

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.

Approximately 99% of Sinopec Daylight's reserves and production for the D&P segment are in Alberta, with the balance located in British Columbia. Approximately 81% of current production is subject to Crown royalties, which are affected directly by government royalty programs, and the remaining 19% of the D&P segment's 2014 royalties are related to freehold and override charges which are not directly affected by these programs.

Overriding royalties are generally paid to third parties where the D&P segment 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.

Overall royalty rates decreased to 13.1% of revenue for 2014 as compared to 13.6% of revenue during 2013 due to the increase in proportion of natural gas production and revenues which have lower royalty rates. Natural gas royalty rates went from (1.5%) of revenues in 2013 to 0.3% of revenues mainly due to Gas Cost Allowance Credits in 2013 and increase in realized prices in 2014. Light oil and NGLs' royalty rates increased to 21.3% of revenue during 2014 as compared to 19.1% of revenue in 2013 due to the increase in realized prices.

D&P Operating Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 211**	$ 230
$ per boe	**$ 14.75**	$ 15.48

D&P Segment operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production. Sinopec Daylight's operating costs for 2014 decreased from 2013 primarily as a result of a focus on reducing costs.

D&P Transportation Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 9**	$ 9
$ per boe	**$ 0.64**	$ 0.62

D&P Segment 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 this segment's 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. On a per boe basis, transportation expense is consistent year over year.

D&P Exploration Expenses

(millions, unless otherwise stated)	Year ended December 31, 2014	2013
Total exploration expense	**$ 23**	$ 14
Less: Non-cash lease expiries	**(21)**	(13)
Cash exploration expense	**$ 2**	$ 1
$ per boe	**$ 0.17**	$ 0.08

D&P Segment exploration expenses includes seismic, research studies and non-cash lease expiries.

D&P Depletion, Depreciation, Amortization and Impairment

	Year ended December 31, 2014	2013
millions	**$ 396**	$ 357
$ per boe	**$ 27.70**	$ 24.22

Sinopec Daylight depletes its successful exploratory wells and development costs using proved developed reserves in the application of the unit-of-production method. Acquired resource properties with proved reserves are depleted over total proved reserves, using the unit-of-production method. 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.

At December 31, 2014, primarily due to technical reserve revisions, declining oil and natural gas prices and pending lease expiries for which no drilling is planned, the Company determined a trigger to be present across all of its CGUs which consist of Pembina, West Central, Peace River Arch, Pacific Northwest and Oilsands. As a result, management was required to undertake impairment testing. Management has not recognized an impairment in the financial statements as the impairment analysis was performed using a discount rate and forecast prices that were not reflective of market rates and assumption as required by IFRS.

In accordance with IFRS, a recoverable value was determined using fair value less costs to sell based on discounted pre-tax cash flows of 10% of proved and probable reserves evaluated by independent engineers using the independent engineers forecast prices and costs. In addition, the values of resources incremental to the reserve report were obtained from internal analysis completed by management. Based on the internal analysis, management identified and evaluated potential drilling locations that were not assigned any proved and probable reserves. The values of these locations were included in the recoverable amount. A pre-tax discount rate of 10% was applied to determine and estimate the future cash flows. Undeveloped land was externally evaluated. Using this Canadian market discount rate and Canadian market price assumptions, in accordance with IFRS, the net book value of the Pembina CGU exceeded the recoverable value indicating an impairment of $375 million (2013 – nil).

D&P Capital Expenditures, Acquisitions and Divestitures

Property, Plant and Equipment Additions		**Year ended December 31,**		
(millions)		**2014**		2013
Land and acquisitions	**$**	**42**	$	216
Geological and geophysical		**22**		21
Drill, complete and recomplete		**241**		196
Equipping and facilities		**87**		106
Total	**$**	**392**	$	539

Exploration and Evaluation Assets Additions		**Year ended December 31,**		
(millions)		**2014**		2013
Land and acquisitions	**$**	**-**	$	6
Geological and geophysical		**1**		5
Drill, complete and recomplete		**44**		52
Equipping and facilities		**4**		19
Total	**$**	**49**	$	82

Total Capital Expenditures		**Year ended December 31,**		
(millions)		**2014**		2013
Land and acquisitions	**$**	**42**	$	222
Geological and geophysical		**23**		26
Drill, complete and recomplete		**285**		248
Equipping and facilities		**91**		125
Total additions	**$**	**441**	$	621
Property dispositions – cash		**(3)**		(1)
Total D&P capital expenditures	**$**	**438**	$	620
Add: Capitalized general and administrative costs		**5**		9
Less: Non-cash additions		**(40)**		(19)
Total D&P cash capital expenditures	**$**	**403**	$	610

The capital expenditure program continues to provide new production and reserves. Sinopec Daylight's 2014 capital program was focused in the following areas:

- Pembina properties of Brazeau and Warburg;
- Peace River Arch properties of Wapiti and Karr; and
- Value Optimization in West Central properties of Ansell South, Obed and Pine Creek.

In 2014, a total of 74 gross (49.2 net) wells were drilled with no dry holes. This program provided production and reserve additions within the following core areas:

- Pembina properties - 27 gross (19.4 net) oil wells, 15 gross (15.0 net) liquids rich natural gas wells drilled;
- Peace River Arch - 5 gross (2.9 net) oil wells drilled, 6 gross (4.7 net) liquids rich natural gas wells; and
- Value Optimization - 21 gross (7.2 net) natural gas wells.

OIL SANDS SEGMENT

Oil Sands Operating Netback

	Year ended December 31,	
$ per boe	**2014**	2013
Oil and natural gas revenues	**$ 99.44**	$ 100.27
Royalties	**(6.43)**	(5.17)
Operating expenses	**(48.93)**	(41.28)
Transportation expenses	**(0.47)**	(0.50)
Total	**$ 43.61**	$ 53.32

Oil Sands Production

	Year ended December 31,	
	2014	2013
Oil *(Bbls/d)*	**23,290**	24,112

Syncrude's 2014 production was lower than 2013 mainly due to an unplanned shutdown of a coker for maintenance which started in April 2014 and returned back to service in early July 2014.

Oil Sands Revenues and Realized Prices

	Year ended December 31,	
(millions, unless otherwise stated)	**2014**	2013
Segment oil revenue	**$ 845**	$ 882
Oil realized price*($/Bbl)*	**$ 99.44**	$ 100.27

Unipec America Inc., an affiliate of the Company, was contracted to sell the Company's share of Syncrude production. Sinopec Daylight realized a price of $99.44 per Bbl for its SCO.

Oil Sands Royalties

Oil Sands Royalties by Type	Year ended December 31,	
(millions, unless otherwise stated)	**2014**	2013
Crown royalties	**$ 55**	$ 46
$ per boe	**$ 6.43**	$ 5.17
% of revenue	**6.5**	5.2

Crown royalties represent Sinopec Daylight's proportionate share of Syncrude's Crown royalties paid to the Province of Alberta. From 2009 through 2015, Syncrude's Crown royalties are determined pursuant to the Syncrude Royalty Amending Agreement ("Syncrude RAA"). Under the Syncrude RAA, the Syncrude owners pay the greater of 25 percent of net revenues, or one percent of gross revenues, plus a transition royalty of up to $975 million ($88 million net to the Company) for the period January 1, 2010 to December 31, 2015. The transition royalty of $975 million is reduced proportionally if bitumen production is less than 345,000 barrels per day over the period. Transition royalty payments are based on a pre-defined schedule that is different than the basis for determining the accrued amounts each year, which are based on bitumen produced. The Company has accrued an aggregate of $72 million (2013 - $59 million) as compared to payments in aggregate of $36 million (2013 - $23 million) pursuant to the transition royalty plan. Of the $36 million difference (2013 - $36 million), $19 million (2013 - $13 million) has been included in accounts payable, reflecting payments to be made in January 2015 with the balance of $17 million (2013 - $23 million) included in other long-term liabilities reflecting amounts to be included with the January 2016 payment. Payments per the pre-defined schedule are $20 million and $32 million for January 2015 and January 2016, respectively.

The Syncrude RAA requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil reference price adjusted to reflect quality and location differences between Syncrude's

bitumen and the Canadian reference price bitumen. In addition, the agreement provides that a minimum bitumen value, or "floor price", may be imposed in circumstances where Canadian heavy oil prices are temporarily suppressed relative to North American heavy oil prices.

Oil Sands Operating Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 416**	$ 363
$ per boe	**$ 48.93**	$ 41.28

Oil Sands segment operating expenses includes activities to mine the bitumen and process it into SCO. This includes the costs for production and maintenance, natural gas and diesel purchases, pension and incentive compensation and fees for management serves provided by Imperial Oil Resources and insurance premiums.

Oil Sands Transportation Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 4**	$ 4
$ per boe	**$ 0.47**	$ 0.50

All of Syncrude's production is transported through Alberta's Oil Sands Pipeline ("AOSPL") system which delivers SCO from the Syncrude plant site to Edmonton, Alberta. The AOSPL system feeds into various other crude oil pipelines that are used to deliver SCO to refineries.

Oil Sands Development Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 28**	$ 37
$ per boe	**$ 3.27**	$ 4.21

Expenditures relating to capital programs, such as pre-feasibility engineering, technical and support services, research, evaluation drilling and regulatory and stakeholder consultation expenditures are expensed as development expenses and totaled $28 million in 2014. Development expenses can vary from year to year depending on the number of projects underway and the development stage of the projects.

Oil Sands Depletion, Depreciation and Amortization

	Year ended December 31,	
	2014	2013
millions	**$ 155**	$ 120
$ per boe	**$ 18.19**	$ 13.59

Property, plant and equipment related to oil sands development is depreciated on a straight-line basis over the estimated useful lives of the assets with the exception of mine development and asset retirement costs which are depleted on a unit-of-production basis over the estimated proved and probable reserves of the producing mines.

Oil Sands Impairment in Goodwill

At least annually, an impairment test of goodwill is performed. For purposes of impairment testing, goodwill has been allocated to the segments to which it relates.

Management has not recognized an impairment charge in the financial statements for the Oil Sands segment as the analysis was performed using a discount rate and forecast prices that were not reflective of market rates

and assumptions as required by IFRS. Had the analysis been performed in accordance with IFRS for the Oil Sands segment, the test would have been 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 over the life of the reserves and resources based on forecasted commodity prices. Volumes of proved, probable and possible reserves and contingent and prospective resources were evaluated by independent reserve engineers and consider past results. A pre-tax discount rate of 7.4% was applied. At December 31, 2014, using this Canadian market discount rate and Canadian market price assumptions, in accordance with IFRS, the carrying value of goodwill exceeded the fair value indicating an impairment of $526 million (2013 – nil).

Oil Sands Capital Expenditures, Acquisitions and Divestitures

Oil Sands capital expenditures for 2014 totaled $208 million (2013 - $303 million). Costs related to regular maintenance and interest are also included in property, plant and equipment.

PNW SEGMENT

PNW Operating Netback

	Year ended December 31,	
$ per boe	**2014**	2013
Oil and natural gas revenues	**$ 26.94**	$ -
Royalties	**(1.76)**	-
Operating expenses	**(9.09)**	-
Transportation expenses	**(1.88)**	-
Total	**$ 14.21**	$ -

The operating netback in 2014 was $14.21 per boe from natural gas and NGL sales.

PNW Production Volumes by Commodity

	Year ended December 31,	
	2014	2013
Natural gas *(Mcf/d)*	**31,256**	-
Light oil *(Bbls/d)*	**173**	-
NGLs *(Bbls/d)*	**276**	-
Combined oil & NGLs *(Bbls/d)*	**449**	-
Combined all products *(boe/d)*	**5,659**	-

Production from the PNW segment for 2014 averaged 5,659 boe per day. From the acquisition date on July 16, 2014, the production averaged 12,294 boe per day.

PNW Realized Prices

	Year ended December 31,	
	2014	2013
Natural gas *($/Mcf)*	**$ 3.84**	$ -
Light oil *($/Bbl)*	**82.93**	-
NGLs *($/Bbl)*	**65.95**	-
Combined oil & NGLs *($/Bbl)*	**$ 72.48**	$ -
Combined all products *($/boe)*	**$ 26.94**	$ -

The PNW segment averaged $26.94 per boe in 2014.

The PNW segment markets its natural gas through contracts based on daily AECO index pricing. The PNW segment's natural gas price from July 2014 to the end of 2014 was $3.84 per Mcf which approximated the daily AECO index price during the same time period.

The PNW segment's 2014 light oil realized $82.93 per Bbl which was 88% of Edmonton par.

The PNW segment's 2014 NGLs realized $65.95 per Bbl which was 70% of Edmonton par.

The PNW segment's combined oil and NGLs price for 2014 was $72.48 per Bbl.

PNW Revenue

(millions)	Year ended December 31,			
		2014		2013
Natural gas	**$**	**44**	$	-
Light oil		**5**		-
NGLs		**7**		-
Total	**$**	**56**	$	-

During 2014, revenues from natural gas, light oil and NGLs were $44 million, $5 million and $7 million, respectively.

PNW Royalties

By Commodity	Year ended December 31,			
(millions, unless otherwise stated)		**2014**		2013
Natural gas	**$**	**3**	$	-
Oil and NGLs		**1**		-
Total	**$**	**4**	$	-
Natural gas *($/mcf)*	**$**	**0.22**	$	-
Oil and NGLs *($/bbl)*	**$**	**7.00**	$	-
Total *($/boe)*	**$**	**1.76**	$	-
Natural gas (*% of revenue*)		**5.7**		-
Oil and NGLs (*% of revenue*)		**9.7**		-
Total (*% of revenue*)		**6.5**		-

Substantially all royalties for the PNW segment are Crown royalties.

PNW Operating Expenses

	Year ended December 31,			
		2014		2013
millions	**$**	**19**	$	-
$ per boe	**$**	**9.09**	$	-

PNW Segment operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production. Included in operating costs are general and administrative fees paid to the operator Progress Energy Canada Ltd.

PNW Transportation Expenses

	Year ended December 31,	
	2014	2013
millions	**$ 4**	$ -
$ per boe	**$ 1.88**	$ -

Transportation expenses for the PNW segment totaled $4 million ($1.88 per boe) from the acquisition date on July 16, 2014, to the end of 2014.

PNW Depletion, Depreciation and Amortization

	Year ended December 31,	
	2014	2013
millions	**$ 18**	$ -
$ per boe	**$ 8.90**	$ -

The PNW Segment depletes its development costs using proved developed reserves in the application of the unit-of-production method. Acquired resource properties with proved reserves are depleted over total proved reserves, using the unit-of-production method. 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.

PNW Capital Expenditures, Acquisitions and Divestitures

Total Capital Expenditures	Year ended December 31,	
(millions)	**2014**	2013
Land and acquisitions	**$ 1,682**	$ -
Geological and geophysical	**-**	-
Drill, complete and recomplete	**107**	-
Equipping and facilities	**46**	-
Total additions	**$ 1,835**	$ -
Property dispositions – cash	**(1)**	-
Less: Non-cash additions	**(109)**	-
Total PNW cash capital expenditures	**$ 1,725**	$ -

On July 16, 2014, Sinopec Daylight, through its subsidiaries, acquired a 15% interest in certain Petroliam Nasional Berhad natural gas assets in exchange for cash of $1.6 billion. These assets include natural gas producing properties and reserves in northeast British Columbia. In addition to this purchase, Sinopec Daylight, through its subsidiaries, also invested in the proposed Pacific Northwest LNG export facility on Canada's West Coast and agreed to offtake 1.8 million metric tonnes of LNG per annum from the LNG facility's production, representing 15% of the proposed LNG production, for a minimum period of 20 years. These acquisitions were completed with Huadian, whereby SCEL owns two-thirds and Huadian owns one-third of the interest in the natural gas assets and LNG investment. In addition to the above noted LNG Offtake Assets, Sinopec has further committed to an additional 25% of the LNG Offtake Assets (an additional 3 million metric tonnes per annum) from this project.

CORPORATE SEGMENT

Corporate Depreciation Expenses and Capital Expenditures

Corporate assets include capital assets that are used by all operating segments such as office equipment and computer hardware and software. Corporate depreciation was $8 million in 2014 (2013 - $7 million). Corporate capital expenditures were $4 million in 2014 (2013 – $4 million).

Corporate General and Administrative Expenses ("G&A")

(millions)		Year ended December 31, 2014		2013
Gross G&A	**$**	**74**	$	74
Operating recoveries		**(14)**		(15)
Capitalized costs		**(14)**		(16)
G&A cash charge		**46**		43
Long-term incentives		**3**		9
Total G&A	**$**	**49**	$	52

Total G&A expenses remained consistent year over year even with the significantly expanded scope of operations for Sinopec Daylight.

Corporate Finance Charges

(millions)		Year ended December 31, 2014		2013
Finance Income				
Interest income on receivable from Company Shareholder	**$**	**(40)**	$	(40)
Other interest income		**-**		(1)
	$	**(40)**	$	(41)
Finance expense				
Interest on due to Company Shareholder	**$**	**31**	$	10
Amortization of bank financing fees		**-**		10
Interest on employee future benefits		**3**		4
Accretion of asset retirement obligations		**16**		13
		50		37
Total	**$**	**10**	$	(4)

The Company has a $5.3 billion receivable from SCEL which is interest bearing. The Company's shareholder continues to fund certain capital expenditures of the Company and has advanced $1.3 billion during 2014 (2013 - $442 million) which bears interest at 3% (2013 – 3%).

Corporate Foreign Exchange Gain

Sinopec Daylight has a US dollar denominated loan receivable of $5.3 billion from its immediate parent company. The Company recorded an unrealized foreign exchange gain of $439 million (2013 - $309 million) on that loan receivable. The Company realized other foreign exchange gains of $13 million (2013 - $12 million).

Gain on Financial Instruments

Sinopec Daylight owns 4,316,666 common shares of Gear Energy Ltd. ("Gear"). At December 31, 2014, the investment in Gear was recorded at a fair value of $11 million (2013 - $14 million), being $2.50 per common share resulting in an unrealized loss of $3 million (2013 - $4 million unrealized gain).

Corporate Taxes

Sinopec Daylight recorded a deferred tax expense of $108 million and a current tax recovery of $5 million for 2014 as compared to a deferred tax expense of $93 million for the year ended December 31, 2013. Sinopec Daylight is a taxable entity under the Income Tax Act (Canada) (the "Tax Act").

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.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

As a result of the previously discussed factors, Sinopec Daylight recognized net income of $425 million (2013 - $440 million), funds from operations of $695 million (2013 - $708 million) and cash provided by operating activities of $644 million (2013 - $696 million). The changes year over year in net income and the decrease in funds from operations and cash provided by operating activities are mainly the result of the lower operating netback from the oil sands segment which was due to the unplanned shutdown of a coker for maintenance which started in April 2014 and returned back to service in early July 2014.

Liquidity and Capital Resources

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 and opportunities. CPC, through Sinopec Daylight's parent SCEL, 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. The Company targets to fully finance its capital expenditures over the longer term but may not fully finance these expenditures within a quarterly or annual period.

The Company has a working capital deficiency of $1.1 billion (2013 – working capital of $86 million) and no bank debt (2013 - nil). The change in working capital year over year is mainly due to the increase in the amount due to the Company Shareholder as a result of the funds advanced to acquire the PNW segment. As at December 31, 2014, the Company's shareholder has advanced $1.7 billion to fund certain capital expenditures. The loan bears interest at 3%.

The Company has a $5.3 billion receivable from SCEL on which it receives interest based on LIBOR rates. SCEL assumed all the Company's $2.0 billion bank debt.

SCEL, the Company's parent, and an affiliate company hold a combined 2% non-controlling interest in SOP.

Investments

(millions)	**December 31, 2014**	December 31, 2013
Investment in Gear Energy Ltd.	**$ 11**	$ 14
Investment in Pacific Northwest LNG export facility	**35**	-
	$ 46	$ 14

At December 31, 2014, the investment in Gear was recorded at fair value, being $2.50 per common share resulting in an unrealized loss of $3 million (2013 - $4 million unrealized gain).

SHCLL, a subsidiary of the Company, and SHLMP, a limited partnership of the Company, also invested cash of $37 million in the proposed Pacific Northwest LNG export facility. SHCLL owns 15% of the shares and limited partnership units of the entities that own the proposed Pacific Northwest LNG export facility. The Company's 15% investment in the Pacific Northwest LNG export facility is accounted for under the equity method as the

15% interest, although not in and of itself providing significant influence, does allow the Company to appoint a Director to the Board of Directors of the General Partner to the limited partnership that is developing the export facility. In addition to the normal influence a Director has over financial and operating decisions, certain key decisions require the approval of at least one of the Directors representing the non-controlling interests in the General Partner. Furthermore, the Company and its ultimate parent have agreed to take material amounts of future LNG gas production from the plant. Accordingly, the Company has assessed that it has significant influence over its investment.

There is no quoted market price for this investment and the value of this investment under the equity method is $35 million (2013 - $nil). SHCLL has a non-controlling interest of 33.33% which belongs to Huadian Natural Gas Canada Limited. The net loss in the investment was $2 million (2013 - $nil) of which $0.6 million was allocated to the non-controlling interest.

Environment

Sinopec Daylight mitigates its impact on the environment by maintaining a proactive site abandonment and reclamation program. Sinopec Daylight also considers its health and safety program to be an essential part of its effective environmental stewardship.

Asset Retirement Obligation

The Company's asset retirement obligations result from its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities as well as its net share of ongoing environmental obligations related to the abandonment or reclamation of the Syncrude properties. The provision for the costs of reclaiming and abandoning the Syncrude properties and facilities and conventional oil and natural gas 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 2.41% (December 31, 2013 – 3.15%). The Company estimates the total undiscounted inflation adjusted cash flow required to settle its asset retirement obligations is approximately $1.3 billion (December 31, 2013 - $1.2 billion). The increase in the obligations year over year is mainly due to the additional liabilities incurred during 2014 from the additional wells drilled and the change in estimated liability due to the decrease in risk-free rate. Inflation factors of 2% to 2.5% have been applied to the estimated asset retirement obligations at December 31, 2014.

Asset Retirement Obligations	**Year ended December 31,**	
(millions)	**2014**	2013
Balance at beginning of year	**$ 470**	$ 213
Liabilities incurred on reorganization	**-**	248
Liabilities assumed on business and property acquisitions	**7**	10
Change in estimate	**88**	(26)
Liabilities incurred	**63**	29
Liabilities settled	**(30)**	(33)
Accretion expense	**16**	13
Foreign currency translation	**21**	16
Balance at end of year	**$ 635**	$ 470
Less: current portion	**$ 33**	$ 27
Non-current portion	**$ 602**	$ 443

Asset retirement obligations are considered a critical accounting estimate. There are significant uncertainties related to settling asset retirement 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.

Defined Benefit Pension and Other Post-employment Obligations

The Company accrues its proportionate share of obligations as a joint venture owner in respect of Syncrude's defined benefit pension plan, two defined contribution pension plans, and a defined benefit other post-employment benefits plan which provides certain health care and life insurance benefits for retirees, their beneficiaries and covered dependents.

Syncrude's defined benefit plan is under the jurisdiction of The Employment Pension Plans Act of the Province of Alberta, Canada. The plan is managed through a plan administrator who is overseen by a pension committee formed from Syncrude's owners. The Company's share of Syncrude's defined benefit plan accrued liability, based on its 9.03% ownership at December 31, 2014, was $83 million (December 31, 2013 - $76 million) which is comprised of its share of the defined benefit obligation net of its share of the defined benefit plan assets.

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.

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, 2014, that Sinopec Daylight's disclosure controls and procedures during the year ended December 31, 2014 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, 2014, 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 2014 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.

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.

Management's 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.

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 professional 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 independent directors and has full access to management and 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 *"Brian Tuffs"*

Brian Tuffs
Chief Executive Officer

Signed *"Jinhong Li"*

Jinhong Li
Executive Vice President and Chief Financial Officer

Calgary, Alberta
September 29, 2015

TO THE DIRECTORS OF SINOPEC DAYLIGHT ENERGY LTD.

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, 2014 and December 31, 2013, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, 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.

Basis for Qualified Opinion

Management performed their mandatory annual impairment testing of goodwill and an impairment test of property, plant and equipment following the identification of indicators of impairment as at December 31, 2014 and determined there was no impairment charge. However, management's impairment analysis was not performed using Canadian market discount rates and Canadian independent price forecasts as required by International Financial Reporting Standards which would have resulted in the carrying values of goodwill and property, plant and equipment being in excess of the recoverable value as at December 31, 2014. Recognition of the impairment charges would have reduced goodwill and property, plant and equipment by $526 million and $375 million, respectively and accordingly, impairment expense would have increased by $901 million. The impairment recognition would have also decreased deferred tax expense and the deferred tax liability by $94 million. The overall impact would have been to decrease the net income by $807 million.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed *"KPMG LLP"*

Chartered Accountants
September 29, 2015
Calgary, Canada

SINOPEC DAYLIGHT ENERGY LTD.

Consolidated Statements of Financial Position

As at December 31, 2014 and 2013

(in millions of Canadian dollars)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents (note 8)	**46**	12
Accounts receivable (note 25)	**117**	145
Inventories (note 9)	**50**	41
Prepaid expenses and deposits	**6**	6
Due from affiliates	**1**	1
Due from Company Shareholder (note 15)	**944**	742
	1,164	947
Investments (note 10)	**46**	14
Property, plant and equipment (note 11)	**11,195**	8,687
Exploration and evaluation assets (note 12)	**477**	498
Loan receivable from Company Shareholder (note 13)	**5,281**	4,802
Goodwill (note 14)	**2,249**	2,110
Total assets	**20,412**	17,058
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**471**	335
Employee future benefits (note 16)	**26**	47
Due to affiliates	**4**	—
Current portion of asset retirement obligations (note 18)	**33**	27
Due to Company Shareholder (note 15)	**1,744**	452
	2,278	861
Employee future benefits (note 16)	**86**	66
Other long-term liabilities (note 17)	**17**	23
Asset retirement obligations (note 18)	**602**	443
Deferred tax liability (note 19)	**1,602**	1,418
	4,585	2,811
Shareholder's Equity		
Share capital (note 20)	**13,302**	13,302
Accumulated other comprehensive income	**883**	340
Retained earnings	**903**	484
Controlling interests	**15,088**	14,126
Non-controlling interest	**739**	121
Total shareholder's equity	**15,827**	14,247
Total liabilities and shareholder's equity	**20,412**	17,058

Commitments and contingencies (note 26)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

Signed *"Zhiqiang Feng"*
Director

Signed *"Hanshen Deng"*
Director

SINOPEC DAYLIGHT ENERGY LTD.

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2014 and 2013

(in millions of Canadian dollars)

	2014	2013
Revenues		
Oil and natural gas	**1,563**	1,525
Royalties	**(145)**	(132)
	1,418	1,393
Expenses		
Operating	**646**	593
Development	**28**	37
Transportation	**17**	14
Exploration (notes 11 and 12)	**23**	14
General and administrative	**49**	52
Finance charges (income) (note 21)	**10**	(4)
Gain on dispositions of assets	**(14)**	(5)
Foreign exchange gain	**(451)**	(321)
Loss (gain) on financial instruments (note 10)	**3**	(4)
Equity loss in associates (note 10)	**2**	—
Depletion, depreciation and amortization (note 11)	**577**	484
	890	860
Earnings before income taxes	**528**	533
Income taxes (note 19)		
Current taxes recovery	**(5)**	—
Deferred taxes	**108**	93
	103	93
Net earnings	**425**	440
Other comprehensive income, net of tax		
Items that will not be reclassified to net earnings:		
Actuarial gain (loss) relating to pension and other post-retirement benefits	**(4)**	15
Items that may be subsequently reclassified to net earnings:		
Foreign currency translation adjustment	**558**	378
Other comprehensive income	**554**	393
Comprehensive income	**979**	833
Net earnings attributable to:		
Owners of the Company	**419**	434
Non-controlling interests	**6**	6
	425	440
Other comprehensive income attributable to:		
Owners of the Company	**543**	385
Non-controlling interests	**11**	8
	554	393

See accompanying notes to the consolidated financial statements.

SINOPEC DAYLIGHT ENERGY LTD.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(in millions of Canadian dollars)

	2014	2013
Share capital		
Balance, beginning of year	**13,302**	1,695
Corporate reorganization (note 1)	**—**	9,557
Share issuance	**—**	2,050
Balance, end of year	**13,302**	13,302
Retained earnings		
Balance, beginning of year	**484**	(65)
Corporate reorganization (note 1)	**—**	115
Net earnings attributable to controlling interests	**419**	434
Balance, end of year	**903**	484
Accumulated other comprehensive income		
Balance, beginning of year	**340**	—
Corporate reorganization (note 1)	**—**	(45)
Other comprehensive income	**543**	385
Balance, end of year	**883**	340
Equity attributable to Owners of the Company	**15,088**	14,126
Equity attributable to non-controlling interests		
Balance, beginning of year	**121**	—
Corporate reorganization (note 1)	**22**	107
Non-controlling interest capital contributions (note 6 and note 10)	**579**	—
Net earnings attributable to non-controlling interests	**6**	6
Other comprehensive income attributable to non-controlling interests	**1**	8
Balance, end of year	**739**	121
Total equity	**15,827**	14,247

See accompanying notes to the consolidated financial statements.

SINOPEC DAYLIGHT ENERGY LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in millions of Canadian dollars)

	2014	2013
Cash provided by (used in):		
Operating activities		
Net earnings	**425**	440
Items not affecting cash:		
Depletion, depreciation and amortization (note 11)	**577**	484
Deferred taxes (note 19)	**108**	93
Non-cash exploration expense	**21**	13
Accretion of asset retirement obligations (note 18)	**16**	13
Amortization of bank financing fees	**—**	9
Unrealized gain on foreign exchange	**(437)**	(309)
Unrealized (gain) loss on financial instruments (note 10)	**3**	(4)
Gain on dispositions of assets	**(14)**	(5)
Equity loss in associates	**2**	—
Employee future benefits (note 16)	**12**	(15)
Asset retirement expenditures (note 18)	**(30)**	(33)
Interest income (note 21)	**(9)**	(30)
Change in non-cash operating working capital	**(30)**	40
Cash provided by operating activities	**644**	696
Financing activities		
Funds advanced from Company shareholder	**1,258**	381
Funds advanced to Company shareholder	**(136)**	(151)
Amounts contributed from non-controlling interest	**579**	—
Interest paid	**—**	(3)
Corporate reorganization, cash acquired	**—**	19
Cash provided by financing activities	**1,701**	246
Investing activities		
Property, plant and equipment additions (note 11)	**(710)**	(836)
Exploration and evaluation asset additions (note 12)	**(49)**	(82)
Proceeds on dispositions of property, plant and equipment	**4**	3
Acquisition of upstream properties (note 6)	**(1,581)**	—
Investment in Pacific NorthWest LNG export facility (note 6)	**(37)**	—
Change in non-cash investing working capital	**60**	(19)
Cash used in investing activities	**(2,313)**	(934)
Increase in cash and cash equivalents during the year	**32**	8
Effect of foreign exchange on cash and cash equivalents	**2**	1
Cash and cash equivalents, beginning of year	**12**	3
Cash and cash equivalents, end of year	**46**	12

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY AND DESCRIPTION OF THE BUSINESS

Sinopec Daylight Energy Ltd. ("Sinopec Daylight" or the "Company") 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. The Company's direct parent is Sinopec Canada Energy Ltd. ("SCEL"). 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.

On July 16, 2014, SCEL, through its subsidiaries, acquired a 15% interest in certain Petroliam Nasional Berhad natural gas assets ("PNW") in exchange for cash of $1.6 billion (note 6). These assets include natural gas producing properties and reserves in northeast British Columbia. In addition to this purchase, SCEL, through its subsidiaries, also invested in the proposed Pacific Northwest Liquefied Natural Gas ("LNG") export facility on Canada's West Coast (refer to note 10 "Investments") and agreed to offtake 1.8 million metric tonnes of LNG per annum from the LNG facility's production, representing 15% of the proposed LNG production ("LNG Offtake Assets"), for a minimum period of 20 years. These acquisitions were completed with China Huadian Corporation ("Huadian"), whereby SCEL owns two-thirds and Huadian owns one-third of the interest in the natural gas assets and LNG investment. In addition to the above noted LNG Offtake Assets, Sinopec has further committed to an additional 25% of the LNG Offtake Assets (an additional 3 million metric tonnes per annum) from this project.

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, 2014, comprise the results of the Company and its subsidiaries and partnership interests as follows:

- Sinopec Oil Sands Partnership (98%)
- Daylight Energy Trust (100%)
- Sinopec Huadian Canada LNG Ltd. ("SHCLL") (66.67%)[1]
- Sinopec Huadian Montney Limited Partnership ("SHMLP") (66.67%)[1]

[1] China Huadian Corporation owns the remaining 33.33% of these interests; representing the non-controlling interest.

Corporate Reorganization

On January 1, 2013, the Company undertook a corporate reorganization in which:

i) SCEL acquired 100% of the equity interest in Sinopec Daylight from its parent company in exchange for common shares of SCEL and assumed the outstanding bank debt of the Company in exchange for common shares in the Company;

ii) SCEL sold its equity interest in the Company to 1603429 Alberta Ltd., another 100% wholly owned subsidiary of SCEL, in exchange for common shares of 1603429 Alberta Ltd.; and,

iii) Sinopec Daylight and 1603429 Alberta Ltd. amalgamated to form Sinopec Daylight Energy Ltd.

As a result of the reorganization, the Company now owns a 98% interest in Sinopec Oil Sands Partnership ("SOP"). SOP holds a 9.03% working interest in the Syncrude Joint Venture ("Syncrude"). Syncrude is involved in the mining of bitumen from its oil sands leases located in Northern Alberta and the upgrading of the bitumen to synthetic crude oil. Syncrude is a joint operation jointly controlled by seven owners. Decisions about Syncrude's significant relevant activities require unanimous consent of the owners. Each owner retains title to its proportionate interest in the property and assets, takes its proportionate share of production in kind, and funds its proportionate share of Syncrude's operating development and capital costs on a daily basis. The Company also owns 9.03% of the issued and outstanding shares of Syncrude Canada Ltd. ("Syncrude Canada"). Syncrude Canada operates Syncrude on behalf the owners and is responsible for selecting, compensating, directing and controlling Syncrude's employees,

and for administering all related employment benefits and obligations. Syncrude Canada has no beneficial interest in the project and holds as agent the property and assets of the owners.

This corporate reorganization meets the definition of a "business combination of entities under common control" since all the entities involved in the arrangement are under the common control of SCEL or its direct parent company. Accordingly, the assets and liabilities of these entities have been accounted for at their historical carrying amounts. The consolidated financial statements represent the consolidated financial position, consolidated net earnings and consolidated cash flows on a prospective basis from the date of the corporate reorganization on January 1, 2013. The following table presents the net assets acquired in the re-organization and the effect on equity.

Net assets acquired in corporate reorganization on January 1, 2013

Assets	
Current assets	
Cash and cash equivalents	19
Accounts receivable	79
Inventories	32
Due from affiliates	1
Due from Company Shareholder	551
	682
Property, plant and equipment	4,752
Loan receivable from Company Shareholder	4,453
Goodwill	1,437
Total assets	11,324
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	194
Employee future benefits	19
Current portion of asset retirement obligations	18
	231
Employee future benefits	90
Other long-term liabilities	22
Asset retirement obligations	230
Deferred tax liability	995
Total liabilities	1,568
Net assets acquired in reorganization	9,756
Reorganization equity	
Share capital	9,557
Accumulated other comprehensive loss	(45)
Retained earnings	115
Owners of the Company	9,627
Non-controlling interests	129
	9,756

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") except for the application of impairment testing as described in Note 11 and Note 14.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on September 29, 2015.

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for assets stated at fair value relating to investments held for trading.

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 functional currency of the Company, its subsidiaries and partnership, other than SOP which maintains a United States dollar functional currency. All financial information presented has been rounded to the nearest million dollars. In cases where United States dollars are referred to, the amounts will be identified as "USD".

Use of Estimates and Judgments

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are described in note 4.

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 subsidiaries. A subsidiary is an entity, including a partnership, 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 these 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, including the activities of Syncrude and SHMLP, involve jointly owned assets. These consolidated financial statements reflect only the Company's proportionate interest in such assets and activities which include a proportionate share of assets, liabilities, income and expenses, on a line-by-line basis.

All intercompany balances and transactions have been eliminated in preparing these consolidated financial statements.

To the extent that there are interests owned by other parties, these interests are included as non-controlling interests. Non-controlling interests are measured at their proportionate share of the subsidiary's identifiable net assets at the acquisition date. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Segmented Information

Operating segments have been determined based on the nature of the Company's activities and are consistent with the level of information regularly provided to and reviewed by the Company's chief operating decision makers.

Foreign Currency Translation

Functional currencies of the Company's individual entities represent the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the appropriate functional currency at foreign exchange rates at the reporting date. Foreign exchange differences arising on translation are recognized in net earnings. Non-monetary assets that are measured in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction.

In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of entities with a functional currency other than Canadian dollars are translated into Canadian dollars at exchange rates at the reporting date. Revenues and expenses of entities with a functional currency other than the Canadian dollar are translated into Canadian dollars using a foreign exchange rate that approximates those on the date of the underlying transaction. Foreign exchange differences are recognized in other comprehensive income.

Cash and Cash Equivalents

The Company considers cash on hand and term investments held with banks, with an original maturity of three months or less, to be cash and cash equivalents.

Inventories

Inventories of crude oil and refined products are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Investments

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 earnings.

Investments in which the Company does have significant influence but not consolidated are classified as equity investments and are accounted for using the equity method, where the Company's share of earnings or losses are recognised in earnings or loss and its share of other comprehensive income or loss is recognised in other comprehensive income. When the Company's cumulative share of losses equals or exceeds the Company's carrying amount of the investment, the Company does not recognize further losses unless the Company has incurred obligations or made payments on behalf of the investment. After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss. Any loss is recognised in earnings or loss.

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 at the acquisition date which is at fair value with limited exceptions. 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. The Company’s assets are aggregated into cash-generating units ("CGU" or "CGUs") for the purpose of calculating impairment. Cash-generating units are based on an assessment of the unit’s ability to generate independent cash inflows. 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.

Exploration and Evaluation Assets

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

The costs to acquire exploratory non-producing oil and gas properties or licenses to explore, drill exploratory wells and the costs to evaluate the commercial potential of underlying resources, including related borrowing costs, are initially capitalized as exploration and evaluation assets. Management deems exploration and evaluation assets to be costs associated with licenses to which proved and probable reserves have not been assigned and to which a new reservoir or formation is being sought and is subject to significant exploration risk. Certain exploration costs, including geological, geophysical, seismic and sampling on oil sands properties, are charged to expense as incurred.

Exploration and evaluation assets are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is no longer considered technically feasible or commercially viable, the related capitalized costs are charged to net earnings. If undeveloped land is abandoned or the rights to the undeveloped land expires, the associated costs are charged to net earnings.

When management determines, with reasonable certainty, that an exploration and evaluation asset has reached technical feasibility and commercial viability and will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals, the asset is transferred to property, plant and equipment. The costs transferred are determined to be those directly related to specific oil and gas licenses with proved or probable reserves assigned.

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 asset retirement obligation, 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. Oil and gas properties and licenses acquired in areas or fields with previously established proved or probable reserves are included in property, plant and equipment, although no proved or probable reserves may be assigned to those specific properties or licenses, as they are considered to be development opportunities in existing reservoirs or formations with minimal exploration risk.

Leases that transfer substantially all the benefits and risks of ownership to the Company are recorded as finance lease assets within property, plant and equipment. Costs for all other leases are recorded as operating expenses as incurred.

The costs of planned major inspection, overhaul and turnaround activities that maintain property, plant and equipment and benefit future years of operations are capitalized. Recurring planned maintenance activities performed on shorter intervals are expensed as operating costs. This includes ongoing overburden removal expenditures on producing mines. Replacements outside of major inspection, overhaul or turnaround activities are capitalized when it is probable that future economic benefits will flow to the Company and the associated carrying amount of the replaced asset is derecognized.

The gain or loss from the divestitures of property, plant and equipment is recognized in net earnings. In addition, risk-sharing agreements in which the Company cedes a portion of its working interest to a third-party are generally considered to be divestitures of property, plant and equipment, 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 derecognition of the asset given up is recognized in net earnings.

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

Borrowing costs relating to assets that take a substantial period of time to construct are capitalized as part of the asset. Capitalization of borrowing costs ceases when the asset is in the location and condition necessary for its intended use, and is suspended when construction of an asset is ceased for extended periods.

Depletion, Depreciation and Amortization

Exploration and evaluation assets are not subject to depletion, depreciation and amortization for conventional oil and gas assets. Once transferred to property, plant and equipment and commercial production commences, these costs for conventional oil and natural gas assets are depleted on a unit-of production basis over proved developed reserves with the exception of property acquisition costs which are depleted over proved reserves.

Capital expenditures associated with significant development projects are not depleted until assets are substantially complete and ready for their intended use.

Capitalized costs of oil and natural gas properties included in property, plant and equipment, other than oil sands 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 transferred from exploration and evaluation assets and development costs are depleted over proved developed reserves. Acquired resource properties included in property, plant and equipment, including those transferred from exploration and evaluation assets, with proved reserves are depleted over total proved reserves. Future development costs are excluded from the depletion calculation. 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 are immediately expensed.

Property, plant and equipment related to oil sands development is depreciated on a straight-line basis over the estimated useful lives of the assets, with the exception of mine development and asset retirement costs, which are depleted on a unit-of-production basis over the estimated proved and probable reserves of the producing mines, calculated in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. Future development costs are excluded from the depletion calculation. Acquisition costs related to oil sands properties without proved and probable reserves are not depleted until proved and probable reserves are assigned.

Corporate assets primarily consist of office furniture, fixtures, leasehold improvements, and information technology which are stated at cost less accumulated depreciation and are depreciated straight-line over the estimated life of the asset. The following estimated useful lives of assets depreciated on a straight-line basis are reviewed annually for any changes to those estimates.

Asset	Estimated Life
Mildred Lake plant, Aurora North plant, extraction plant, upgrading, utilities and off-sites and spare parts related to these major assets	15-25 years
Various plant assets	5-25 years
Mobile equipment comprised of loaders, shovels and haul trucks	10-20 years
Crawlers, graders and cranes	15 years
Building and trailers	15-20 years
Support equipment, office furniture, computer equipment, software, miscellaneous mobile equipment, buses, vans & light vehicles, and aircraft	4-15 years
Housing and accommodations	25 years

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 depleted, depreciated or amortized.

Impairment

Non-financial assets

Property, plant and equipment and exploration and evaluation assets are tested for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Exploration and evaluation assets are also tested for impairment immediately prior to costs being transferred to property, plant and equipment. Goodwill is tested at least annually for impairment.

If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated as the higher of the fair value less costs to sell and value-in-use. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used. This model is typically a discounted cash flow model based on external and internal estimates of reserves and volumes with associated cash flows discounted at a pre-tax market rate. Value-in-use is assessed using the present value of the expected future cash flows of the relevant asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested as part of a CGU, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the combination. Exploration and evaluation assets are combined with all CGUs at the operating segment level 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 in depletion, depreciation and amortization for the amount by which the carrying amount of the individual asset or CGU exceeds its recoverable amount.

Impairments are reversed for all CGUs and individual assets, other than goodwill, to the extent that events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. Impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would otherwise have been determined, net of depletion, depreciation and amortization, if no impairment loss had been recognized. Impairment reversals are recognized within depletion, depreciation and amortization.

Financial assets

At each reporting date, the Company assesses whether there is evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the payable or receivable and its recoverable amount. All impairment losses are recognized in net earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Provisions

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are recognized for asset retirement obligations associated with the Company's exploration and evaluation assets and property, plant and equipment. Provisions for asset retirement obligations are measured at the present value of management's best estimate of the future cash flows required to settle the present obligation, using a risk-free interest rate specific to the asset. The value of the obligation is added to the carrying amount of the associated asset and amortized over the useful life of the asset. The provision is accreted over time through finance charges with actual expenditures charged against the accumulated obligation to the extent the provision is established.

Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows is recognized as a change in the asset retirement obligation of the related asset.

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.

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

Finance Charges

Finance charges comprise interest income on the loan receivable from Company Shareholder, interest expense on due to Company Shareholder, the amortization of bank financing fees, the interest cost component of the pension obligation, and the accretion of the discount on asset retirement obligations. Borrowing costs are recognized in net earnings using the effective interest method and are recognized in net earnings 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 and 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 taxes 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 interests 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 earnings 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 earnings except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income.

Share Capital

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

Financial Instruments

Initial measurement and recognition

Financial assets and liabilities are initially recognized on the trade date at which the Company enters into the contractual provisions of the instrument. Financials assets and liabilities are initially measured at fair value. Subsequent measurement of financial assets or liabilities is at amortized cost or fair value.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flow from the financial asset expire or are transferred. Any difference between the carrying amount of the asset and the consideration received is recognized in net earnings. A financial liability is derecognized when it is extinguished. Any difference between the carrying amount of the liability extinguished and the consideration paid is recognized in net earnings.

Non-derivative financial assets

A financial asset is subsequently measured at amortized cost using the effective interest method, net of any impairment loss if:

- The asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets other than those measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in net earnings.

Financial assets measured at amortized cost are cash and cash equivalents, accounts receivable, due from affiliates, due from Company Shareholder and the loan receivable from Company Shareholder. Investments are measured at fair value or using the equity method.

Non-derivative financial liabilities

Financial liabilities other than those measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in net earnings.

Financial liabilities measured at amortized cost comprise accounts payable and accrued liabilities, other long-term liabilities and the payables due to the Company Shareholder and due to affiliates.

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 revenues.

Employee Benefits

Post-employment benefit obligations

The Company accrues its proportionate share of Syncrude Canada's post-employment benefit obligations, which includes defined benefit and defined contribution pension plans and a defined benefit plan for other post-employment benefits ("OPEB"). The OPEB includes health care benefits and life insurance benefits to retirees, their beneficiaries and covered dependents. These obligations are valued annually by independent qualified actuaries.

The costs of the defined benefit pension and OPEB plans are actuarially determined using the projected unit credit method based on length of service and reflect the Company's best estimate of financial and demographic assumptions. The discount rate used to determine the accrued benefit obligation is based on a market rate of interest for high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments. The interest cost component of the pension obligation is presented within finance charges. Plan assets accrete at the same rate as that used to accrete the discounted accrued benefit obligation. Actuarial remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. The current service cost of the defined benefit plans is recognized in operating expense as the service is rendered. Any past service costs arising from plan amendments are recognized immediately in operating expenses.

The cost of the defined contribution plans is recognized in operating expenses as the service is rendered and contributions become payable.

Bonus plan and other employment incentives

The Company through its interest in Syncrude Canada has short and long-term incentive plans that are cash settled and measured at fair value at the end of each reporting period where the carrying value of the obligation is compared to the estimated fair value of the obligation until the settlement. Any difference arising between these two amounts is charged or credited to net earnings at the end of the period being reported. These plans include Syncrude Canada's employee retention program.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and judgments that affect reported assets, liabilities, revenues, expenses, gains, losses, and disclosures of contingencies. These estimates and judgments are subject to change based on experience and new information. The financial statement areas that require significant estimates and judgments are as follows:

Critical Accounting Estimates

Business combinations

Business combinations are accounted for using the acquisition method which requires the fair value of certain acquired assets, liabilities and contingent consideration, if any, to be estimated. Oil and natural gas reserves form the basis for estimating the value of oil and gas properties which requires the estimation of reserves. Contingent consideration requires the estimation of amounts owing and probability of occurring.

Asset Retirement Obligations

In determining the estimated value of the asset retirement obligations, the Company must estimate the timing and amount of future abandonment, reclamation and closure expenditures. These provisions are based on estimated costs, which take into account the anticipated method and extent of abandonment and restoration, technological advances and the possible future use of the site. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience, prices and closure plans. The estimated timing of future asset retirement and restoration may change due to certain factors, including reserve life. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

Employee Future Benefits

The Company provides benefits to employees, including pensions and other post-retirement benefits through its interest in Syncrude. The costs of defined benefit pension plans and other post-retirement benefits received by employees are estimated based on actuarial valuation methods. Estimates typically used in determining these amounts include, as applicable, rates of employee turnover, future claim costs, discount rates, future salary and benefit levels, the return on plan assets, mortality rates and future medical costs. Changes to these estimates may have a material impact on the amounts presented.

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

Asset Impairment and Reversals

The recoverable amount of CGUs and individual assets is determined based on the higher of fair value less costs to sell or value-in-use calculations. The key estimates the Company applies in determining the recoverable amount normally include estimated future commodity prices, expected production volumes, future operating and development costs as they relate to the estimation of proven, probable, possible reserves and/or contingent and prospective resources, undeveloped land values, and discount rates. Changes in economic conditions could significantly change these estimates. Changes to these estimates will affect the recoverable amounts of CGUs and individual assets and may then require a material adjustment to their related carrying value.

Oil and natural gas prices and exchange rates

The future prices used to determine cash flows from oil, natural gas and oil sands reserves are as follows:

Benchmark Reference Price Forecasts	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
WTI *($US/Bbl)*	65.00	80.00	90.00	91.35	92.72	94.11	95.52	96.96	98.41	99.89
Edmonton par *($Cdn/Bbl)*	66.85	83.86	94.78	96.25	97.75	100.35	101.90	103.49	105.09	106.72
AECO *($Cdn/MMBtu)*	3.32	3.71	3.90	4.47	5.05	5.13	5.22	5.31	5.40	5.49
Exchange rate *($US/$Cdn)*	0.85	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87

After 2024, 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 0.87 $US/$Cdn.

Benchmark reference prices, as noted above, are provided by independent reserve engineers. Volumes are either evaluated by independent reserve engineers or internally evaluated and supported by other independent evidence as available. Undeveloped land values are based on assessments by independent evaluators and independent evidence.

Discount rate

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. Based on the individual characteristics of the asset, other economic and operating factors are also considered which may increase or decrease the implied discount rate.

Depletion, Depreciation and Amortization

The Company calculates depreciation and amortization expense for the majority of its oil sands assets on a straight-line basis and must estimate the useful lives of these assets accordingly. While these useful life estimates are reviewed on a regular basis and depreciation and amortization calculations are revised accordingly, actual lives may differ from the estimates. The Company calculates depletion expense for asset retirement costs, conventional oil and natural gas operations and mine development on a unit-of-production basis and must estimate reserves, which are used as a component of the depletion calculations to allocate capital costs over the estimated useful lives. As circumstances change and new information becomes available, estimated reserves and resultant depletion calculations could change.

Oil and Gas Reserves and Resources

Estimations of recoverable quantities of proved, probable and possible reserves and/or contingent and prospective resources 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, asset retirement obligations, the economic feasibility of exploration and evaluation assets and the reported depletion, depreciation and amortization of property, plant and equipment.

Critical Accounting Judgments

Equity method accounting in investment

The Company has determined its 15% investment in the Pacific Northwest LNG export facility should be accounted for under the equity method. In applying its judgment, the Company determined that its ability to appoint a Director to the Board of Directors of the General Partner to the limited partnership that is developing the export facility gives it influence over financial and operating decisions.

In addition, certain key decisions require the approval of at least one of the Directors representing the non-controlling interests in the General Partner. Furthermore, the Company and its ultimate parent have agreed to take material amounts of future LNG production from the plant. Accordingly, the Company has assessed that it has significant influence over its investment.

Crown Royalties

When calculating deemed bitumen revenues on which Crown royalties are based, the Company must determine a deemed bitumen value and deductible costs. This requires the use of judgment in the application of the governing royalty agreement.

Taxes

In determining its current and deferred tax provisions, the Company must apply judgment when interpreting and applying complex and changing tax laws and regulations. The determination of the appropriate application of these laws and regulations by tax authorities may remain uncertain for several years. The final outcome of such determination could result in amounts different from those initially recorded and would impact current or deferred tax expense in the period in which a determination is made.

Determination of CGUs

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

Asset Impairment and Reversals

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.

Oil and Gas Activities

The Company is required to apply judgment when designating the nature of oil and natural gas activities as exploration and evaluation or development and production, and when determining whether the initial costs of these activities are capitalized.

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make judgments about future events and circumstances as to whether economic quantities of reserves have been found. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures are important judgments when making this determination.

Management uses judgment to determine when exploration and evaluation assets are reclassified to property, plant and equipment. This decision considers several factors, including the existence of proved or probable reserves, appropriate approvals from regulatory bodies and the Company's internal project approval processes.

Functional Currency

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 its receipts from operating activities and in which currency the Company has received financing. Management used its judgment to assess these factors.

5. CHANGES IN ACCOUNTING POLICES

The following policies were adopted by the Company in 2014.

Offsetting Financial Assets and Financial Liabilities

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, *Financial Instruments Presentation*. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The amendments did not impact the consolidated financial statements.

Levies

In May 2013, the IASB issued International Financial Reporting Interpretations Committee Interpretation 21, *Levies*, which provides guidance on when to recognize a liability for levies imposed by governments. The Company has applied this interpretation effective January 1, 2014, in accordance with the applicable transitional provisions, with no impact on the consolidated financial statements or disclosures.

Disclosure Initiative (Amendments to IAS 1)

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments were designed to clarify the application of professional judgment by companies in determining what information to disclose in their financial statements. In particular, the amendments made it clear that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The Company has applied these interpretations effective January 1, 2014, in accordance with the applicable transitional provisions, with no impact on the consolidated financial statements or disclosures.

New Standards and Interpretations Not Yet Adopted

In May 2014, the International Accounting Standards Board ("IASB") published IFRS 15, *Revenue From Contracts With Customers* ("IFRS 15") replacing IAS 18, *Revenue*. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

6. BUSINESS COMBINATION

On July 16, 2014, the Company, through its subsidiaries, acquired a 15% interest in certain Petroliam Nasional Berhad natural gas assets in exchange for cash of $1.6 billion. The acquisition requires an additional payment of $135 million in certain circumstances as further described below. These assets include natural gas producing properties and reserves in northeast British Columbia. In addition to this purchase, the Company, through its subsidiaries, also invested in the proposed Pacific Northwest LNG export facility on Canada's West Coast (refer to note 10 "Investments") and agreed to offtake 1.8 million metric tonnes of LNG per annum from the LNG facility's production, representing 15% of the proposed LNG production, for a minimum period of 20 years.

These acquisitions were completed with Huadian. The Company and Huadian together created two separate entities, being SHCLL and SHMLP which hold a 15% interest in the natural gas assets and a 15% interest in the shares and limited partnership units that hold the Pacific Northwest LNG export facility project. SHCLL is the general partner to SHMLP. The Company owns two-thirds of the shares and limited partnership units of these entities and by virtue of having a greater proportion of the Board of Directors seats and common shares and maintaining the key management positions is considered to control the entities. Huadian owns the other one-third of the entities and is considered a non-controlling interest holder.

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

Net Assets Acquired	
Property, plant and equipment	1,689
Asset retirement obligations	(7)
Total	1,682

Consideration	
Cash paid	1,581
Contingent consideration	101
Total	1,682

The above amounts are estimates which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimates are finalized.

The Company's recorded contingent consideration of $101 million is the estimated fair value using a 75% probability that the additional amount will become payable in cash for the natural gas reserves. This payment is required only if the decision to build the LNG export facility is sanctioned which in anticipated in 2015. The maximum undiscounted amount payable for the contingent consideration if the LNG export facility is sanctioned is CAD $135 million. The contingent consideration has been included in accounts payable and accrued liabilities.

The Company incurred transaction costs of $0.6 million in conjunction with the acquisition which have been included in general and administrative expenses in profit and loss.

Revenues included in the Company's result from the date of acquisition, July 16, 2014, to December 31, 2014 was $56 million. Had the transaction closed on January 1, 2014, the estimated incremental revenue that would have been reported by the Company would have been $74 million.

The net earnings included in the Company's results from the date of acquisition, July 16, 2014, to December 31, 2014 was $7 million of which $2 million was attributable to non-controlling interests. Had the transaction closed on January 1, 2014, the estimated incremental net earnings that would have been reported by the Company would have been $21 million of which $7 million would have been attributable to non-controlling interests.

7. SEGMENTED INFORMATION

As a result of a business combination (note 6), Sinopec Daylight now has three operating segments all of which operate in Canada. The Company recognizes its joint arrangement with Syncrude as a joint operation and accordingly records its share of the assets, liabilities, revenues and expenses (proportionately consolidates) of this operation which are represented as the Oil Sands segment. Development and Production ("D&P") represents conventional oil and natural gas assets. The PNW segment represents the Company's ownership interest in certain Petronas assets and the Pacific Northwest LNG export facility. The Corporate segment includes company-wide costs for general and administrative and financing activities.

Segment information as at and for the years ended December 31, 2014 and 2013 is set out below.

	Oil Sands		D&P		PNW		Corporate		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Revenues										
Oil and natural gas revenues	**845**	882	**662**	643	**56**	—	**—**	—	**1,563**	1,525
Less: royalties	**(55)**	(46)	**(86)**	(86)	**(4)**	—	**—**	—	**(145)**	(132)
	790	836	**576**	557	**52**	—	**—**	—	**1,418**	1,393
Expenses							**—**	—		
Operating	**416**	363	**211**	230	**19**	—	**—**	—	**646**	593
Development	**28**	37	**—**	—	**—**	—	**—**	—	**28**	37
Transportation	**4**	4	**9**	10	**4**	—	**—**	—	**17**	14
Exploration	**—**	—	**23**	14	**—**	—	**—**	—	**23**	14
Equity loss in associate	**—**	—	**—**	—	**2**	—	**—**	—	**2**	—
Loss (gain) on divestiture of assets	**6**	5	**(19)**	(10)	**(1)**	—	**—**	—	**(14)**	(5)
Depletion, depreciation and amortization	**155**	120	**396**	357	**18**	—	**8**	7	**577**	484
Segment expenses	**609**	529	**620**	601	**42**	—	**8**	7	**1,279**	1,137
Segment earnings (loss) before tax	**181**	307	**(44)**	(44)	**10**	—	**(8)**	(7)	**139**	256
General and administrative							**49**	52	**49**	52
Finance charges							**10**	(4)	**10**	(4)
Foreign exchange gain							**(451)**	(321)	**(451)**	(321)
Loss (gain) on financial instruments							**3**	(4)	**3**	(4)
Earnings before income tax							**381**	270	**528**	533
Income tax expense							**103**	93	**103**	93
Net earnings									**425**	440

	Oil Sands		D&P		PNW		Corporate		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Property, plant and equipment	**5,753**	5,194	**3,579**	3,468	**1,841**	—	**22**	25	**11,195**	8,687
Exploration and evaluation assets	**—**	—	**477**	498	**—**	—	**—**	—	**477**	498
Goodwill	**1,676**	1,537	**573**	573	**—**	—	**—**	—	**2,249**	2,110
Assets	**7,429**	6,731	**4,629**	4,539	**1,841**	—	**22**	25	**13,921**	11,295
Capital expenditures	**208**	303	**438**	620	**1,834**	**—**	**4**	4	**2,484**	927

8. CASH AND CASH EQUIVALENTS

	2014	2013
CAD Dollar Balances	**44**	8
USD Dollar Balances	**2**	4
Total	**46**	12

All cash and cash equivalents are bank deposits.

9. INVENTORIES

The Company's major inventory items are raw bitumen, pipes and small parts. Bitumen is stock piled as part of the normal Syncrude mining process. Ongoing mining of raw bitumen is delivered directly to the upgrader but during equipment shutdown phases, no bitumen or insufficient quantities are mined such that the utilization of the upgrader would be below normal capacity. In these instances, bitumen inventory is used to meet the upgrader processing requirements. Use of the bitumen inventory stockpile is frequent with ongoing replenishment. Pipes and small parts are used in the mining operations. There has been no impairment of inventory in either the current or prior year.

10. INVESTMENTS

Investment in associates

SHCLL, a subsidiary of the Company, and SHLMP, a limited partnership of the Company, also invested cash of $37 million in the proposed Pacific Northwest LNG export facility (refer to note 6 "Business Combination"). SHCLL owns 15% of the shares and limited partnership units of the entities that own the proposed Pacific Northwest LNG export facility. The Company's 15% investment in the Pacific Northwest LNG export facility is accounted for under the equity method as the 15% interest, although not in and of itself providing significant influence, does allow the Company to appoint a Director to the Board of Directors of the General Partner to the limited partnership that is developing the export facility. In addition to the normal influence a Director has over financial and operating decisions, certain key decisions require the approval of at least one of the Directors representing the non-controlling interests in the General Partner. Furthermore, the Company and its ultimate parent have agreed to take material amounts of future LNG gas production from the plant. Accordingly, the Company has assessed that it has significant influence over its investment.

There is no quoted market price for this investment and the value of this investment under the equity method is $35 million (2013 - $nil). SHCLL has a non-controlling interest of 33.33% which belongs to Huadian Natural Gas Canada Limited. The net loss in the investment was $2 million (2013 - $nil) of which $0.6 million was allocated to the non-controlling interest.

The financial statements as at and for the year ended December 31, 2014, for the associate investee developing the LNG plant consist of capitalized project costs in the amount of $235 million, current assets of $14 million and current liabilities of $12 million and a loss of $18 million. There were no revenues. The Company's investment of

$35 million represents a 15% interest in these amounts.

Investment at fair value

The Company holds an investment in 4,316,666 common shares of Gear Energy Ltd. ("Gear") (2013 - 4,316,666 common shares). At December 31, 2014, the investment in Gear was recorded at fair value of $11 million (2013 - $14 million), being CAD $2.50 per common share resulting in an unrealized loss of $3 million (December 31, 2013 - $4 million unrealized gain).

	2014	2013
Investment in Pacific NorthWest LNG export facility	**35**	—
Investment in Gear Energy Ltd.	**11**	14
	46	14

11. PROPERTY, PLANT AND EQUIPMENT

	Oil Sands		Development and Production	PNW	Corporate	Total
	Reserves and Resources	Plant and Equipment	Property, Plant and Equipment	Property, Plant and Equipment	Corporate Assets	
Cost						
Balance at December 31, 2012	—	—	3,490	—	18	3,508
Corporate reorganization (note 1)	3,104	1,904	—	—	18	5,026
Additions	—	303	331	—	4	638
Transfers from exploration and evaluation assets (note 12)	—	—	75	—	—	75
Property acquisitions	—	—	180	—	—	180
Capitalized long-term incentives	—	—	6	—	—	6
Divestitures and lease expiries	—	(17)	(21)	—	(1)	(39)
Changes in asset retirement obligation	(52)	—	94	—	—	42
Foreign currency translation	213	140	—	—	2	355
Balance at December 31, 2013	3,265	2,330	4,155	—	41	9,791
Additions	—	208	383	145	4	740
Transfers from exploration and evaluation assets (note 12)	—	—	68	—	—	68
Business acquisitions (note 6)	—	—	—	1,689	—	1,689
Capitalized long-term incentives	—	—	6	—	—	6
Divestitures and lease expiries	—	(15)	(40)	—	(2)	(57)
Changes in asset retirement obligation	37	—	89	25	—	151
Foreign currency translation	298	222	—	—	2	522
Balance at December 31, 2014	**3,600**	**2,745**	**4,661**	**1,859**	**45**	**12,910**
Accumulated depletion, depreciation and amortization						
Balance at December 31, 2012	—	—	330	—	5	335
Corporate reorganization (note 1)	105	165	—	—	5	275
Depletion, depreciation and amortization	39	81	357	—	7	484
Divestitures	—	(11)	—	—	(1)	(12)
Foreign currency translation	9	13	—	—	—	22
Balance at December 31, 2013	153	248	687	—	16	1,104
Depletion, depreciation, and amortization	41	114	396	18	8	577
Divestitures	—	(9)	(1)	—	(2)	(12)
Foreign currency translation	16	29	—	—	1	46
Balance at December 31, 2014	**210**	**382**	**1,082**	**18**	**23**	**1,715**

	Oil Sands		Development and Production	PNW	Corporate	Total
	Reserves and Resources	Plant and Equipment	Property, Plant and Equipment	Property, Plant and Equipment	Corporate Assets	
Net Book Value						
December 31, 2013	3,112	2,082	3,468	—	25	8,687
December 31, 2014	**3,390**	**2,363**	**3,579**	**1,841**	**22**	**11,195**

Amounts Excluded from Calculation of Depreciation, Depletion and Amortization	2014	2013
Undeveloped land and acquired resource properties without depletable reserves assignments and salvage value	**4,218**	2,438

Impairment testing

At December 31, 2014, primarily due to technical reserve revisions, declining oil and natural gas prices and pending lease expiries for which no drilling is planned, the Company determined a trigger to be present across all of its CGUs which consist of Pembina, West Central, Peace River Arch, Pacific Northwest and Oilsands. As a result, management was required to undertake impairment testing. Management has not recognized an impairment in the financial statements as the impairment analysis was performed using a discount rate and forecast prices that were not reflective of market rates and assumption as required by IFRS.

In accordance with IFRS, a recoverable value was determined using fair value less costs to sell based on discounted pre-tax cash flows of 10% of proved and probable reserves evaluated by independent engineers using the independent engineers forecast prices (note 4) and costs. In addition, the values of resources incremental to the reserve report were obtained from internal analysis completed by management. Based on the internal analysis, management identified and evaluated potential drilling locations that were not assigned any proved and probable reserves. The values of these locations were included in the recoverable amount. A pre-tax discount rate of 10% was applied to determine and estimate the future cash flows. Undeveloped land was externally evaluated. Using this Canadian market discount rate and Canadian market price assumptions, in accordance with IFRS, the net book value of the Pembina CGU exceeded the recoverable value indicating an impairment of $375 million.

Lease expiries

Lease expiries in the current year of $20 million (2013 - $13 million) are included in exploration expense.

12. EXPLORATION AND EVALUATION ASSETS

Cost	
Balance at December 31, 2012	490
Additions	80
Transfers to property, plant and equipment (note 11)	(75)
Lease expiries	(1)
Capitalized employee future benefits	3
Change to asset retirement obligation	1
Balance at December 31, 2013	498
Additions	49
Transfers to property, plant and equipment (note 11)	(68)
Lease expiries	(1)
Change to asset retirement obligation	(1)
Balance at December 31, 2014	**477**

Exploration and evaluation assets consist of the Company's cost for exploration projects which are pending the determination of proved or probable reserves. Management deems exploration projects to be those in areas or fields with no previously established proved or probable reserves where a new reservoir or formation is being sought to which there is significant exploration risk.

Impairment testing

There were no impairments or impairment reversals of exploration and evaluation assets in 2014.

Lease expiries

Lease expiries of $1 million (2013 - $1 million) are included in exploration expense.

13. LOAN RECEIVABLE FROM COMPANY SHAREHOLDER

	2014	2013
Balance, beginning of year Corporate	**4,802**	—
reorganization (note 1)	**—**	4,453
Interest income	**40**	40
Unrealized gain on foreign exchange	**439**	309
Balance, end of year	**5,281**	4,802

As a result of the corporate reorganization (note 1), the Company has a loan receivable from its shareholder in the amount of USD$4.4 billion which accrues interest at LIBOR plus a specified margin. The loan is unsecured and has no fixed date of repayment.

14. GOODWILL

	2014	2013
Balance, beginning of year	**2,110**	573
Corporate reorganization (note 1)	**—**	1,437
Foreign currency translation	**139**	100
Balance, end of year	**2,249**	2,110

Goodwill arose on two separate transactions. Goodwill of $1.4 billion arose on the acquisition of SOP which holds a 9.03% interest in Syncrude. Goodwill was attributed to an assembled work force living in a Northern Alberta community, operational synergies expected to be derived from future performance and a deferred income tax liability because there was a lack of a tax base in the acquired net assets. This goodwill is attributed to the Oil Sands segment. SOP has a USD functional currency company and accordingly its goodwill is translated at year-end exchange rates.

Goodwill of $0.6 billion relates to the acquisition of Daylight Energy Ltd. Goodwill was attributed to an assembled workforce and management team as well as entrance into the conventional Canadian oil and gas market on an operated basis. This goodwill is attributed to the Development and Production segment. There has been no change to goodwill from the date of acquisition.

Impairment testing

At least annually, an impairment test of goodwill is performed. For purposes of impairment testing, goodwill has been allocated to the segments to which it relates.

Oil Sands Segment

Management has not recognized an impairment charge in the financial statements for the Oil Sands segment as the analysis was performed using a discount rate and forecast prices that were not reflective of market rates and assumptions as required by IFRS. Had the analysis been performed in accordance with IFRS for the Oil Sands segment, the test would have been 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 over the life of the reserves and resources based on independent engineers forecasted commodity prices (note 4). Volumes of proved, probable and possible reserves and contingent and prospective resources were evaluated by independent reserve engineers and consider past results. A pre-tax discount rate of 7.4% was applied. At December 31, 2014, using this Canadian market discount rate and Canadian market price assumptions, in accordance with IFRS, the carrying value of goodwill exceeded the fair value indicating an impairment of $526 million.

Development and Production Segment

For the Development and Production segment, the impairment 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 over the life of the reserves and contingent resources based on independent engineers forecasted commodity prices (note 4) and the fair value of undeveloped land. Reserves volumes were evaluated by independent reserve engineers and consider past results. Contingent resource volumes were estimated internally based on anticipated future performance, past results and available independent evidence. Undeveloped land was externally evaluated. Consideration was also given to acquisition metrics of recent transactions on similar assets. A pre-tax discount rate of 10% was used. At December 31, 2014, the fair value exceeded the carrying value of goodwill and therefore no impairment was recorded. The Company has identified that individual changes in three key assumptions could cause the estimated recoverable amount to be equal to the carrying amount: a 5 percent increase in the assumed discount rate, a 10 percent reduction in forecasted commodity prices, or a 5 percent reduction in forecasted volumes.

15. DUE FROM AND TO COMPANY SHAREHOLDER

Due from Company Shareholder

The Company's shareholder, SCEL, is the managing partner of SOP and SCEL manages cash flow for the partnership. As a result, SCEL owes SOP for cash it has advanced. The receivable of $944 million (2013 - $742 million) is non-interest bearing. In addition the Company pays interest on behalf of certain of its shareholder's third party loans.

	2014	2013
Balance, beginning of year	**742**	—
Corporate	**—**	551
Advances, net of repayments	**136**	151
Unrealized foreign exchange gain	**66**	40
Balance, end of year	**944**	742

Due to Company Shareholder

The Company received operating advances from its shareholder which are unsecured and bear interest at 3% per annum and are repayable on demand.

	2014	2013
Balance, beginning of year	**452**	—
Advances	**1,258**	442
Accrued interest expense	**31**	10
Unrealized foreign exchange loss	**3**	—
Balance, end of year	**1,744**	452

16. EMPLOYEE FUTURE BENEFITS

Employee future benefits consist of an accrued variable compensation plan, long-term incentive plans and post-employment obligations.

	2014	2013
Current liabilities:		
Accrued variable compensation	**9**	9
Long-term incentive	**12**	18
Post-employment obligations	**5**	20
	26	47
Long-term liabilities:		
Accrued variable compensation	**1**	2
Long-term incentive	**7**	9
Post-employment obligations	**78**	55
	86	66
Total	**112**	113

Accrued variable compensation plan

The Company accrues its proportionate share of Syncrude's short-term and long-term incentive plans that are cash settled and measured at fair value. These plans include Syncrude's stock-based compensation programs and employee retention program.

Syncrude performance share units

Syncrude awards performance share units ("PSUs") to certain employees. Subject to certain exceptions relating to retirement, death or termination, Syncrude PSUs have a term of seven years and vest in equal amounts over a three-year period. Syncrude PSUs are settled in cash and have value if the weighted-average price of the shares of certain of Syncrude's shareholders at the exercise date exceeds the exercise price. The PSU program was discontinued in 2013 and no units were awarded in 2013.

Syncrude restricted share units

Syncrude awards restricted share units ("RSUs") to certain employees. Subject to certain exceptions relating to retirement, death or termination, Syncrude RSUs are settled in cash after a three-year vesting period. The expense related to RSUs is recognized in net earnings over the vesting period. There are two categories of Syncrude RSUs. The cash settlement for the first type is based on the weighted-average price of certain Syncrude owners' shares and the total shareholder return of such owners' shares over the vesting period relative to a peer group. The cash settlement for the second type is based purely on the weighted-average price of certain Syncrude owners' shares, and is not contingent on shareholder return.

Syncrude employee retention program

Syncrude introduced an employee retention program for permanent Fort McMurray based employees. The current program started April 1, 2012 and concludes March 31, 2015. Employees must meet certain criteria to be eligible. Eligible employees can earn three annual payments of 20% of regular salary to a maximum of $20,000 per 12 month period as a retention payment. At December 31, 2014, Sinopec Daylight's share of the retention payment payable is $6 million (2013 - $5 million) and is included in employee future benefits.

Long-term incentive plan

Under Sinopec Daylight's long-term incentive plan, eligible employees receive Restricted and/or Performance Awards which are settled for cash consideration upon vesting. Grants have different vesting provisions with certain awards cliff vesting after three years and others principally vesting on the basis of one third on each anniversary date of the award. Performance Awards are subject to a performance multiplier which is dependent upon the Company's performance.

Post-employment obligations

The Company accrues its proportionate share of obligations as a joint venture owner in respect of Syncrude's post-employment benefit obligations, which include a defined benefit pension plan, two defined contribution pension plans, and a defined benefit other post-employment benefits plan which provides certain health care and life insurance benefits for retirees, their beneficiaries and covered dependents.

Defined benefit plans

Syncrude is the plan sponsor for a defined benefit plan under the jurisdiction of The Employment Pension Plans Act of the Province of Alberta, Canada. The plan is managed through a plan administrator who is overseen by a pension committee formed from Syncrude's owners. Syncrude measures its defined benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan and OPEB for funding purposes was completed in April 2014. The Company's share of Syncrude's defined benefit plan accrued liability, based on its 9.03% ownership at December 31, 2014, is comprised of its share of the defined benefit obligation net of its share of the defined benefit plan assets. The following table presents the Company's proportionate share of Syncrude's defined benefit plans.

Defined Benefit Plans	Pension 2014	Pension 2013	OPEB 2014	OPEB 2013	Total 2014	Total 2013
Defined Benefit Obligation						
Balance, beginning of year	**248**	245	**15**	15	**263**	260
Current service costs	**10**	11	**—**	—	**10**	11
Interest costs	**11**	10	**1**	1	**12**	11
Transfers	**1**	1	**—**	—	**1**	1
Benefits paid	**(10)**	(10)	**(1)**	(1)	**(11)**	(11)
Remeasurements:						
Actuarial losses from changes in demographic assumptions	**—**	12	**—**	1	**—**	13
Actuarial (gains) losses from changes in financial assumptions	**24**	(21)	**1**	(1)	**25**	(22)
Balance, end of year	**284**	248	**16**	15	**300**	263
Plan Assets						
Balance, beginning of year	**187**	152	**—**	—	**187**	152
Return on plan assets	**9**	6	**—**	—	**9**	6
Employer contributions	**10**	26	**—**	—	**10**	26
Transfers	**1**	1	**—**	—	**1**	1
Benefits paid	**(9)**	(9)	**—**	—	**(9)**	(9)
Remeasurements:						
Gains on plan assets	**19**	11	**—**	—	**19**	11
Balance, end of year	**217**	187	**—**	—	**217**	187
Pension and Other Post-employment Liability	**67**	61	**16**	15	**83**	76

Plan Assets	2014	2013
Equity securities	**129**	113
Debt securities	**88**	74
	217	187

Fair value of equity and debt securities are based on the market trading price of the underlying funds.

Significant Actuarial Assumptions	Pension 2014	Pension 2013	OPEB 2014	OPEB 2013
Discount rate	**4.0%**	4.5%	**4.0%**	4.5%
Rate of compensation increases	**2.9%**	3.2%	**2.9%**	3.2%

For the OPEB, a 7.0% annual rate of increase in the cost of supplemental health care benefits was assumed in 2014 (2013 - 7.0%) and will remain constant in 2015 and 2016, decreasing by 0.5% each year thereafter to a 5% ultimate rate in 2020. An annual rate increase in the dental rate of 4.0% per year was used in 2014 (2013 - 4.0%).

Defined contribution plans

The Company's share of expense related to the Syncrude's defined contribution plans in 2014 was $1 million (2013 - $1 million).

17. OTHER LONG-TERM LIABILITIES

Syncrude's Crown royalties are determined pursuant to the Syncrude Royalty Amending Agreement ("Syncrude RAA"). The Syncrude RAA includes a transition royalty of up to $975 million ($88 million net to the Company) for the period January 1, 2010 to December 31, 2015. The transition royalty becomes payable and is accrued as bitumen is produced. The transition royalty can be reduced if production does not meet certain volume targets. The Company has made payments aggregating $35 million (2013 - $23 million) and has accrued $36 million, of which $19 million has been included in accounts payable and $17 million is included in other long-term liabilities reflecting amounts to be included with the January 2016 payment.

18. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities as well as its net share of ongoing environmental obligations related to the abandonment and reclamation of the Syncrude properties. The provision for the costs of reclaiming and abandoning the Syncrude properties and facilities and conventional oil and natural gas 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 2.41% (December 31, 2013 - 3.15%). The Company estimates the total undiscounted inflation adjusted cash flow required to settle its asset retirement obligations is approximately $1.3 billion (December 31, 2013 - $1.2 billion). Inflation factors of 2% to 2.5% have been applied to the estimated asset retirement obligations at December 31, 2014.

	2014	2013
Asset retirement obligations, beginning of year	**470**	213
Acquired on corporate reorganization	**—**	248
Liabilities incurred on business and property acquisitions	**7**	10
Liabilities incurred	**63**	29
Liabilities settled	**(30)**	(33)
Change in estimated liability	**88**	(26)
Accretion expense	**16**	13
Foreign currency translation	**21**	16
Asset retirement obligations, end of year	**635**	470
Less: current portion	**33**	27
Non-current portion	**602**	443

19. INCOME TAXES

Tax Expense (Benefit)	2014	2013
Current tax		
Current year	**(5)**	—
Deferred tax		
Origination and reversal of temporary differences	**91**	97
Impact of foreign exchange	**12**	7
Impact of change in tax rates	**2**	—
Adjustment in respect of prior years	**3**	(10)
Other	**—**	(1)
	108	93
Total tax expense	**103**	93

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 earnings and comprehensive income reflects an effective tax rate which differs from the expected statutory tax rate.

Reconciliation of Effective Tax Rate	2014	2013
Earnings before taxes	**528**	533
Statutory income tax rate	**25.03%**	25.00%
Expected tax expense	**132**	133
Add (deduct):		
Non-taxable portion of capital gains	**(53)**	(38)
Impact of foreign exchange	**28**	15
Impact of change in tax rates	**2**	—
Adjustments in respect of prior periods	**3**	(9)
Other	**(9)**	(8)
Tax expense	**103**	93

In 2014, the blended statutory tax rate was 25.03% (2013 - 25.00%). The increase from 2013 is due to an increase in the blended provincial rate.

Movement in and Components of Deferred Tax Liability
For Year Ended December 31, 2014

	2013	Charge to Earnings	Charge to OCI[(1)]	Reorganization	2014
Deferred tax liabilities:					
Property plant and equipment and exploration and evaluation assets	1,573	95	99	(22)	**1,745**
Long-term debt	49	56	—	—	**105**
Unrealized gain (loss) on investment	1	—	—	—	**1**
Deferred partnership income	27	(27)	—	—	**—**
Other	16	(5)	—	—	**11**
	1,666	119	99	(22)	**1,862**
Deferred tax assets:					
Asset retirement obligations	(117)	(34)	(5)	1	**(155)**
Employment future benefits	(22)	2	(2)	—	**(22)**
Deferred partnership income	—	(8)	7	(2)	**(3)**
Royalty obligation	(6)	2	—	—	**(4)**
Share and debt issue costs	(3)	1	—	—	**(2)**
Losses, non-capital and net capital	(100)	26	—	—	**(74)**
	(248)	(11)	—	(1)	**(260)**
Total	1,418	108	99	(23)	**1,602**

(1) Other Comprehensive Income

Movement in and Components of Deferred Tax Liability
For Year Ended December 31, 2013

	2012	Charge to Earnings	Charge to OCI[(1)]	Reorganization	2013
Deferred tax liabilities:					
Property plant and equipment and exploration and evaluation assets	412	46	72	1,043	1,573
Long-term debt	6	33	—	10	49
Unrealized gain on investment	—	1	—	—	1
Deferred partnership income	—	(43)	6	64	27
Other	19	(3)	—	—	16
	437	34	78	1,117	1,666
Deferred tax assets:					
Asset retirement obligation	(53)	(3)	1	(62)	(117)
Employment future benefits	(3)	12	(2)	(29)	(22)
Royalty obligation	—	2	(1)	(7)	(6)
Share and debt issue costs	(2)	(1)	—	—	(3)
Losses, non-capital and net capital	(149)	49	—	—	(100)
	(207)	59	(2)	(98)	(248)
Total	230	93	76	1,019	1,418

(1) Other Comprehensive Income

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, 2014, the Company recognized a tax benefit of $74 million (2013 - $100 million) of non-capital and net capital losses available to carry forward that would be available to offset against future taxable profit and future taxable capital gains, respectively.

Expiry of Non-capital Losses	
2026	**79**
2030	**1**
2032	**216**
Total	**296**

At December 31, 2014, the Company had an unrecognized deferred tax liability of $0.8 million for aggregate taxable temporary differences of $3 million associated with its investments in subsidiaries because the Company controls whether the profits will be distributed and the Company is satisfied that the liability will not be incurred in the foreseeable future.

Cash taxes paid in 2014 totaled $nil (2013 - $49 million).

20. SHAREHOLDER'S EQUITY

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

($millions, except number of shares)	**Number of Shares**	**Amount**
Balance at December 31, 2012	**1,695,189,000**	**1,695**
Issued to Company's Shareholder for assumption of Company's bank debt	**2,049,961,895**	**2,050**
Cancelled on corporate reorganization	**(3,745,150,895)**	**—**
Issued on Corporate reorganization	**5,823,511**	**9,557**
Balance at December 31, 2013 and 2014	**5,823,511**	**13,302**

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.

21. FINANCE CHARGES

	Finance income	
	2014	2013
Interest income on loan receivable from Company Shareholder (note 13)	**40**	40
Other interest income	**—**	1
	40	41
Finance expense		
Interest expense on due to Company Shareholder (note 15)	**31**	10
Amortization of bank financing fees	**—**	10
Interest expense on employee future benefits	**3**	4
Accretion of asset retirement obligation	**16**	13
	50	37
Total	**10**	(4)

22. RELATED PARTY TRANSACTIONS

Transactions between related parties, including amounts due to and from affiliates and due to Company Shareholder (notes 13 and 15), 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.

Unipec America Inc., an affiliate of Sinopec Daylight, was contracted to sell all the Company's Syncrude Sweet Premium production from Syncrude. Total sales in the year months ended December 31, 2014 were $845 million (2013 - $882 million). The amount due from Unipec America Inc. at December 31, 2014 is $45 million (December 31, 2013 - $76 million) and is included in accounts receivable.

The Company's shareholder loaned $1.3 billion to the Company in the period to fund operations. The Company reimbursed its parent company for certain travel and accommodation expenses.

Key Management Compensation

The Company’s key management personnel have been identified as the nine directors as well as the executive management team of the Company. The executive management team is comprised of the Chief Executive Officer (also a director), Chief Operating Officer (also a director), Chief Financial Officer, Executive Vice President Growth Strategy and Business Planning (also a director), Executive Vice President Oil Sands (also a director) and the Executive Director (also Vice Chairman of the Board). The former CFO and Acting President of SDEL is also included as a component of the key management personnel for compensation disclosure purposes in 2014. At December 31, 2014, the Company’s executive management team comprises three Canadian citizens and three Chinese citizens. Three of the Company’s directors are Canadian citizens and six are Chinese citizens.

	2014	2013
Salaries, Director Fees and Short-Term Benefits	**7**	10
Other Long-Term Benefits	**5**	3
Total	**12**	13

Other long-term benefits have different vesting provisions with certain awards cliff vesting after three years and others vesting principally on the basis of one-third on each anniversary date of the award. Performance awards are subject to a performance multiplier which is dependent on the Company’s performance (note 16).

23. 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 Commission ("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.

24. SUPPLEMENTAL DISCLOSURE

The Company's consolidated statements of earnings and comprehensive income are prepared primarily by nature of expense with the exception of employee compensation costs, including employee future benefits, which are included in the following accounts.

	2014	2013
General and administrative (before the impact of overhead recoveries)	**50**	59
Operating	**113**	127
Development	**6**	5
	169	191

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, amounts due to and from affiliates, amounts due to and from Company Shareholder and other long-term liabilities.

The fair values of cash and cash equivalents, accounts receivable, amounts due to and from affiliates, accounts payable and accrued liabilities, amounts due to and from Company's Shareholder and other long-term liabilities approximate their carrying values due to the nature of the items or the short time to maturity. The loan receivable from the Company Shareholder receives interest at floating market rates and, accordingly, its fair value approximates its carrying amount. Investments in the shares of Gear Energy Ltd., are carried at their fair value using transaction prices obtained from publicly traded markets. These amounts are Level 1 fair value measurements which are fair value measurements based on unadjusted quoted market prices.

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. At December 31, 2014, the Company does not have any financial assets and liabilities measured using level 2 fair value measurements.

Level 3 fair value measurements are based on unobservable information. At December 31, 2014, the Company applies a Level 3 fair value measurement in estimating the recoverable amount for impairment testing of its equity- accounted investment (note 10). Recoverable amounts for the Company's planned LNG plant assets utilizes assumptions such as plant throughput, future commodity prices, operating costs, transportation capacity and supply and demand conditions. The final decision to proceed with the building and commissioning of the LNG Plant has not yet been made. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the investment.

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 earnings, 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 financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company'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 the Company's receivables from joint venture partners and oil and natural gas marketers.

Aging of outstanding receivable balances, net of allowance

As at December 31,	**2014**	2013
Current (90 days or less)	**116**	142
Past due (more than 90 days)	**1**	3
Total	**117**	145

The Company has provided an allowance for doubtful accounts as at December 31, 2014 of $2 million (2013 - $2 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. The Company 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, amounts due from affiliates and investments represents the Company's maximum credit exposure.

As at December 31, 2014, revenues of approximately $45 million (2013 - $76 million) were due from a related party, Unipec America Inc., who is contracted to sell the Company's share of Syncrude production. There are no other receivables from customers with more than 10% of total revenues for December 2014.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company'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 the Company's reputation.

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

Contractual Maturities of Financial Liabilities	< 1 Year	1 - 2 Years
Accounts payable and accrued liabilities	471	—
Due to Company Shareholder (note 15)	1,744	—
Due to affiliates (note 15)	4	—
Other long-term liabilities (note 17)	—	17
Total	2,219	17

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 has no floating interest rate loans. Debt due to the Company Shareholder is fixed at 3% per annum. The loan receivable from the Company Shareholder is exposed to interest rate risk to the extent that changes in LIBOR rates will impact it as the loan is subject to floating interest rates.

Assuming all other variables remain constant, an increase or decrease of 10 basis points in LIBOR rates in the year ended December 31, 2014 would have increased or decreased pre-tax net earnings by $5 million. The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2014.

Carrying amount of interest-bearing financial instruments		
At December 31	**2014**	2013
Amounts receivable		
Loan receivable from Company Shareholder (note 13)	**5,281**	4,802
Amounts payable		
Due to Company Shareholder (note 15)	**1,744**	452

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 the Company's oil and natural gas sales in both the Development and Production and PNW segments 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. Fluctuations in the US dollar exchange rate will impact exchange gains and losses recorded in profit and loss and also foreign currency translation in other comprehensive income and accumulated other comprehensive income.

Debt due from the Company's Shareholder is denominated in US dollars. A 1 cent change in the exchange rate between the United States and Canadian dollar would result in a change of approximately $40 million to the unrealized foreign exchange gain or loss.

An increase or decrease of 1 cent in the exchange rate between the Canadian and United States dollar will correspondingly increase or decrease other comprehensive income and accumulated other comprehensive income by approximately $78 million.

Capital Management

Sinopec Daylight is an indirect subsidiary of CPC through which CPC has invested in Canada's oil sands and conventional oil and natural gas industries. CPC strategically oversees its allocation of equity and debt capital based on group needs and opportunities. CPC, through Sinopec Daylight's parent SCEL, 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. The Company targets to fully finance its capital expenditures over the long term but may not fully finance these expenditures within annual periods.

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.

26. COMMITMENTS AND CONTINGENCIES

Contractual obligations and commitments

The following is a summary of the Company's contractual obligations and commitments as at December 31, 2014:

Commitments	2015	2016	2017	2018	2019	Thereafter
Operating leases	25	20	12	8	5	7
Capital commitments	44	22	10	10	—	—
Natural gas purchases and transportation	17	3	3	2	—	—
Pension plan deficiency payments	4	4	4	4	1	4
Due to Company Shareholder	1,744	—	—	—	—	—
Total	1,834	49	29	24	6	11

Pension plan deficiency payments represent the Company's share of the required solvency payments for Syncrude's defined benefit plan as determined by actuarial valuation.

In addition to the above, the following contingencies exist at December 31, 2014.

Legal Claims Contingency

The Company 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 the Company'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.

Board of Directors

Feng Zhiqiang (Chairman)
President
Sinopec International Petroleum Exploration and Production Corporation
Beijing, China

Zhang Lianhua (Vice Chairman) (1) (2) (3) (4)
Executive Director
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Brian Tuffs
Chief Executive Officer
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Deng Hanshen (1) (2) (3) (4)
Deputy Director General
China Petrochemical Corporation
Beijing, China

Michael Laffin (1) (2) (3) (4) (5)
Partner
Blake, Cassels & Graydon LLP
Calgary, Alberta

Howard Balloch (1) (2) (3) (4) (5)
Corporate Director & Private Investor
Beijing, China

Derek McCoubrey
Executive Vice President
and Chief Operating Officer
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Mou Hansheng
Executive Vice President, Oilsands and LNG
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Li Jinhong
Executive Vice President
and Chief Financial Officer
Sinopec Daylight Energy Ltd.
Calgary, Alberta

Members of the following Committees:

(1) Audit
(2) Environment, Health & Safety and Reserves
(3) Corporate Governance
(4) Human Resources & Compensation Committee
(5) Independent Director

Executives and Senior Officers

Brian Tuffs
Chief Executive Officer

Zhang Lianhua
Vice Chairman and Executive Director

Derek McCoubrey
Executive Vice President and Chief Operating Officer

Li Jinhong
Executive Vice President and Chief Financial Officer

Mou Hansheng
Executive Vice President, Oilsands and LNG

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Chartered Accountants
Calgary, Alberta

Evaluation Engineers

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