

2011

For the period from incorporation
on October 18, 2011
to December 31, 2011



MANAGEMENT ANNUAL REPORT

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

Mission

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

Long-Term Goals

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

Description of our Business and Operations

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

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

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

RESERVES INFORMATION

Disclosure of Reserves Data

The reserves data set forth below (the "Reserves Data") is based upon an independent evaluation by Sproule Associates Limited ("Sproule") with an effective date of December 31, 2011 contained in the Sproule reserve report ("Sproule Report") dated March 1, 2012. The opening reserves balances represent the reserves for Daylight at December 31, 2010. The Reserves Data summarizes the crude oil, natural gas liquids and natural gas reserves of the Company and the net present values of future net revenue for these reserves using forecast prices and costs. The Sproule Report has been prepared in accordance with the standards contained in the COGE Handbook, National Instrument 51-101 ("NI 51-101") and CSA Notice 51-324. We engaged Sproule to provide an evaluation of proved and proved plus probable reserves and no request was made to evaluate possible reserves.

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

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

Abbreviations and Conversions

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

Reserves Information

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

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

Summary of Reserves

The following tables summarize, as at December 31, 2011, Sinopec Daylight's oil, natural gas liquids and natural gas reserves and the estimated net present values of future net cash revenues associated with such reserves, together with certain information, estimates and assumptions associated with such reserve estimates, as contained in the Sproule Report. The data contained in the tables set out below is a summary of the evaluations, and as a result, the numbers in the tables may not add due to rounding.

Reserves	Light and Medium Oil		Heavy Oil		Natural Gas	
	Gross (MBbl)	Net (MBbl)	Gross (MBbl)	Net (MBbl)	Gross (MMcf)	Net (MMcf)
Proved						
Developed producing	11,095	8,840	404	356	195,955	171,370
Developed non-producing	1,481	917	31	27	17,274	15,440
Undeveloped	7,144	6,059	83	72	137,342	123,542
Total Proved	19,720	15,816	519	455	350,571	310,352
Probable	13,922	10,344	173	147	378,971	338,122
Total proved plus probable	33,643	26,159	692	602	729,542	648,475

Reserves	Coalbed Methane		Natural Gas Liquids		Total	
	Gross (MMcf)	Net (MMcf)	Gross (MBbl)	Net (MBbl)	Gross (Mboe)	Net (Mboe)
Proved						
Developed producing	654	625	5,899	4,079	50,167	41,941
Developed non-producing	176	167	375	287	4,795	3,832
Undeveloped	659	626	3,157	2,529	33,384	29,355
Total Proved	1,489	1,418	9,431	6,896	88,347	75,128
Probable	1,154	1,097	9,612	7,059	87,062	74,086
Total proved plus probable	2,643	2,516	19,043	13,954	175,409	149,214

Reserves Information

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

(000s) discounted at	0%	5%	10%	15%	20%
Proved					
Developed producing	\$ 1,279,756	\$ 1,025,529	\$ 868,745	\$ 761,099	\$ 682,186
Developed non-producing	124,816	103,747	88,388	76,616	67,292
Undeveloped	508,083	300,587	176,237	97,318	44,930
Total Proved	1,912,654	1,429,864	1,133,370	935,033	794,408
Probable	1,978,592	1,089,548	669,779	441,739	304,930
Total proved plus probable	\$ 3,891,247	\$ 2,519,412	\$ 1,803,149	\$ 1,376,772	\$ 1,099,338

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

(000s) discounted at	0%	5%	10%	15%	20%
Proved					
Developed producing	\$ 1,279,756	\$ 1,025,529	\$ 868,745	\$ 761,099	\$ 682,186
Developed non-producing	124,816	103,747	88,388	76,616	67,292
Undeveloped	480,888	288,380	170,487	94,492	43,488
Total Proved	1,885,460	1,417,657	1,127,620	932,207	792,965
Probable	1,483,940	823,775	510,930	339,744	236,021
Total proved plus probable	\$ 3,369,399	\$ 2,241,432	\$ 1,638,550	\$ 1,271,951	\$ 1,028,987

Future Net Revenue (undiscounted)

(000s)	Revenue	Royalties	Operating Costs	Development Costs	Abandonment and Reclamation Costs	Future Net Revenue Before Income Taxes	Future Income Taxes	Future Net Revenue After Income Taxes
Proved								
Developed producing	\$ 2,717,431	\$ 446,832	\$ 960,504	\$ 1,895	\$ 28,445	\$ 1,279,756	\$ -	\$ 1,279,756
Developed non-producing	252,200	64,634	47,333	14,729	688	124,816	-	124,816
Undeveloped	1,710,179	211,234	419,812	562,660	8,390	508,083	27,194	480,888
Total Proved	4,679,810	722,700	1,427,648	579,284	37,524	1,912,654	27,194	1,885,460
Probable	4,837,188	787,160	1,491,901	564,784	14,750	1,978,592	494,653	1,483,940
Total proved plus probable	\$ 9,516,998	\$ 1,509,860	\$ 2,919,550	\$ 1,144,068	\$ 52,274	\$ 3,891,247	\$ 521,847	\$ 3,369,399

Reserves Information

Future Net Revenue by Production Group (discounted at 10%)

	Future Net Revenue before Income Taxes (000s)	Unit Value ⁽³⁾ (\$/boe or \$/Mcf)
Proved		
Light and medium crude oil ⁽¹⁾	\$ 543,482	27.38
Heavy oil ⁽¹⁾	12,203	26.81
Coalbed methane	631	2.67
Natural gas ⁽²⁾	577,053	10.57
Total Proved	\$ 1,133,370	15.09
Proved plus probable		
Light and medium crude oil ⁽¹⁾	\$ 789,228	24.12
Heavy oil ⁽¹⁾	14,626	24.29
Coalbed methane	859	2.05
Natural gas ⁽²⁾	998,436	8.65
Total Proved plus probable	\$ 1,803,149	12.08

(1) Including solution gas and other by-products

(2) Including by-products but excluding natural gas from oil wells

(3) Calculated using net oil or net gas reserves and forecast prices and cost assumptions

Pricing Assumptions

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

Year	West Texas Intermediate Crude Oil (\$US/Bbl)	Edmonton par Crude Oil (\$Cdn/Bbl)	Natural Gas At AECO (\$Cdn/MMbtu)	Foreign Exchange (\$US/\$Cdn)
	2012	98.07	96.87	3.16
2013	94.90	93.75	3.78	1.012
2014	92.00	90.89	4.13	1.012
2015	97.42	96.23	5.53	1.012
2016	99.37	98.16	5.65	1.012
2017	101.35	100.12	5.77	1.012
2018	103.38	102.12	5.89	1.012
2019	105.45	104.17	6.01	1.012
2020	107.56	106.25	6.14	1.012
2021 Escalation of 2% thereafter	109.71	108.38	6.27	1.012

Weighted average historical prices realized by Sinopec Daylight for the period from the date of acquisition of Daylight, December 23, 2011, to year-end December 31, 2011, were \$3.25 per Mcf for natural gas, \$91.54 per Bbl for light oil and \$61.84 per Bbl for NGLs.

Reserves Information

Reserves Reconciliation

Reconciliation of Gross Reserves

	Light and Medium Oil			Heavy Oil		
	Proved (MBbl)	Probable (MBbl)	Proved plus Probable (MBbl)	Proved (MBbl)	Probable (MBbl)	Proved plus Probable (MBbl)
December 31, 2010	21,929	13,184	35,112	793	260	1,053
Discoveries	-	-	-	-	-	-
Extensions and improved recovery	4,133	4,553	8,686	6	1	7
Technical revisions	(3,043)	(3,924)	(6,967)	(179)	(85)	(264)
Acquisitions	417	119	536	-	-	-
Dispositions	(43)	(15)	(58)	-	-	-
Economic factors	(67)	6	(61)	3	(2)	1
Production	(3,606)	-	(3,606)	(104)	-	(104)
December 31, 2011	19,720	13,922	33,643	519	174	692

Reconciliation of Gross Reserves

	Associated and Non-Associated Gas			Natural Gas Liquids		
	Proved (MMcf)	Probable (MMcf)	Proved plus Probable (MMcf)	Proved (MBbl)	Probable (MBbl)	Proved plus Probable (MBbl)
December 31, 2010	382,275	339,959	722,234	8,873	7,935	16,808
Discoveries	-	-	-	-	-	-
Extensions and improved recovery	60,851	80,282	141,134	1,754	3,029	4,783
Technical revisions	(7,540)	(24,960)	(32,499)	229	(1,241)	(1,012)
Acquisitions	1,551	(957)	594	17	(19)	(2)
Dispositions	(29,239)	(11,648)	(40,887)	(84)	(37)	(121)
Economic factors	(7,728)	(3,707)	(11,435)	(107)	(55)	(163)
Production	(49,598)	-	(49,598)	(1,251)	-	(1,251)
December 31, 2011	350,571	378,971	729,542	9,431	9,612	19,043

Reconciliation of Gross Reserves

	Coalbed Methane			Oil Equivalent		
	Proved (MMcf)	Probable (MMcf)	Proved plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved plus Probable (Mboe)
December 31, 2010	2,507	586	3,093	95,725	78,136	173,861
Discoveries	-	-	-	-	-	-
Extensions and improved recovery	-	-	-	16,035	20,962	36,998
Technical revisions	(565)	650	86	(4,344)	(9,301)	(13,644)
Acquisitions	-	-	-	692	(60)	632
Dispositions	(236)	(63)	(299)	(5,039)	(2,004)	(7,043)
Economic factors	(63)	(20)	(83)	(1,470)	(672)	(2,143)
Production	(154)	-	(154)	(13,252)	-	(13,252)
December 31, 2011	1,489	1,154	2,643	88,347	87,062	175,409

Additional Information Relating to Reserves Data

Undeveloped Reserves

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

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

- wells budgeted and scheduled to be drilled from 2012 to 2015;
- wells drilled which require completion or have been completed and require equipping and tie-in during 2012 or 2013; and
- secondary zones that will be completed for production once the primary zone is depleted.

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

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

For the nine days from the date of acquisition of Daylight, December 23, 2011 to December 31, 2011, \$7.0 million was spent on development capital and approximately \$650 million has been budgeted for exploration and development capital in 2012 with respect to our assets. For the full year 2011, \$535.4 million was spent on capital expenditures. A portion of the 2012 development capital is planned to be used to convert proved undeveloped reserves and probable reserves into proved developed producing reserves. Allocating capital to properties and timing of development is based on economics and performance of the respective properties.

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

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

Reserves Information

Proved Undeveloped Reserves

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

	Light and Medium Oil		Heavy Oil		Natural Gas	
	First	Total at	First	Total at	First	Total at
	Attributed (MBbl)	Year-end (MBbl)	Attributed (MBbl)	Year-end (MBbl)	Attributed (MMcf)	Year-end (MMcf)
Prior	75	723	1,635	1,733	17,466	26,531
2009	1,171	1,700	-	1,286	58,356	80,920
2010	6,356	6,924	-	83	61,702	145,555
2011	3,068	7,144	-	83	35,029	138,001

Proved Undeveloped Reserves

	Natural Gas Liquids		Oil Equivalent	
	First	Total at	First	Total at
	Attributed (MBbl)	Year-end (MBbl)	Attributed (Mboe)	Year-end (Mboe)
Prior	105	198	4,726	7,076
2009	664	778	11,561	17,251
2010	1,304	2,398	17,944	33,664
2011	969	3,157	9,875	33,384

Approximately 62% of Sinopec Daylight's future capital associated with proved undeveloped reserves is scheduled for expenditure in 2012 and 2013. The major areas of development in 2012 and 2013 are the Brazeau, Warburg, Tomahawk, Elmworth, Marlboro and Wapiti properties. The proved undeveloped reserves scheduled for development in 2012 and 2013 represent 55% of the total proved undeveloped reserves. The remaining proved undeveloped capital and reserves are primarily associated with the Oldman, Fox Creek, Medicine Lodge and Obed areas.

Probable Undeveloped Reserves

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

	Light and Medium Oil		Heavy Oil		Natural Gas	
	First	Total at	First	Total at	First	Total at
	Attributed (MBbl)	Year-end (MBbl)	Attributed (MBbl)	Year-end (MBbl)	Attributed (MMcf)	Year-end (MMcf)
Prior	99	848	1,056	1,109	20,956	37,250
2009	1,049	1,940	237	915	66,849	98,106
2010	5,371	6,712	-	81	125,646	251,143
2011	4,130	8,478	-	81	71,178	288,042

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Probable Undeveloped Reserves	Natural Gas Liquids		Oil Equivalent	
	First Attributed (MBbl)	Total at Year-end (MBbl)	First Attributed (Mboe)	Total at Year-end (Mboe)
Prior	323	584	4,971	8,749
2009	1,910	2,374	14,338	21,580
2010	2,273	4,976	28,585	53,626
2011	2,744	6,820	18,737	63,386

Approximately 37% of Daylight's future capital associated with probable undeveloped reserves is scheduled for expenditure in 2012 and 2013. The major areas of development in 2012 and 2013 are the Brazeau, Tomahawk, Elmworth and Wapiti properties. The probable undeveloped reserves scheduled for development in 2012 and 2013 represent 40% of the total probable undeveloped reserves. The remaining probable undeveloped capital and reserves are primarily associated with the Bilbo, Medicine Lodge, Marlboro and Warburg areas.

Significant Factors or Uncertainties Affecting Reserves Data

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

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

Future Development Costs

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

Future Development Costs (undiscounted) (000s)	Proved Plus Probable Reserves	
	Proved Reserves	Proved Plus Probable Reserves
2012	\$ 178,978	\$ 250,810
2013	185,927	326,025
2014	97,644	261,901
2015	80,239	196,345
Remaining	36,496	108,987
Total	\$ 579,284	\$ 1,144,068

Future development costs are capital expenditures required in the future for us to convert proved non-producing reserves and probable reserves into proved developed producing reserves. We anticipate using a

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

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

OTHER OIL AND NATURAL GAS INFORMATION

Overview

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

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

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

Description of Principal Oil and Natural Gas Properties

The following is a description of the principal oil and natural gas properties in which we have an interest. Unless otherwise specified, production estimates, gross and net acres and well count information are as at December 31, 2011. Reserve amounts are stated, before deduction of royalties as at December 31, 2011, based on forecast cost and price assumptions as evaluated in Sproule Report. **The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.**

Greater Pembina Area

Brazeau - The Brazeau property is located approximately 145 kilometers southwest of Edmonton, Alberta near the community of Drayton Valley. Daylight operates two significant facilities for the processing of sour oil and the compression of sour gas in the Brazeau area. The sour gas is shipped for final processing at four third-party midstream plants located in the neighbouring Brazeau River and West Pembina areas. The majority of reserves are associated with the Cardium and Nisku formations with additional reserves assigned to the Rock Creek, Ellerslie and Notikewan zones. Significant development of the Cardium zone with horizontal wells occurred during 2011 and is expected to continue in 2012. Proved plus probable reserves in the Sproule Report total 25.2 MMboe for our interests in this area at year end 2011.

Warburg - The Warburg properties are located to the east of the Brazeau property, approximately 30 kilometers east of Drayton Valley. The Warburg area contains four significant sub-properties: Easyford, Tomahawk, Warburg, and Caroline and a number of minor properties. Daylight operates two significant

Reserves Information

facilities for the processing of sour oil and the compression of sour gas and a number of sweet oil facilities in the Warburg area. The sour gas is shipped for final processing at two third-party midstream plants located in the neighbouring Bigoray and Minnehik-Buck Lake areas. The majority of reserves are associated with the Cardium, Nisku, and Belly River formations with additional reserves assigned to the Ellerslie and various other cretaceous zones. Significant development of the Cardium and Belly River zones with horizontal wells occurred during 2011 and will continue in 2012. Proved plus probable reserves in the Sproule Report total 26.9 MMboe for our interests in this area at year end 2011.

Deep Basin Area

Peace River Arch - The Peace River Arch ("PRA") properties are located in proximity to the City of Grande Prairie, in northwest Alberta. The PRA area contains three significant sub-properties: Elmworth, Wapiti, and Cecil and a number of minor properties. In Elmworth reserves are developed with both vertical and horizontal gas wells and production is commingled from the Cadotte, Falher, Bluesky, Gething, Cadomin, and Nikanassin formations. In Wapiti, production is primarily from the Montney formation, which is being developed with horizontal wells. Daylight has identified numerous additional Montney, Cadomin and Nikanassin horizontal and vertical well opportunities in the PRA area. Sproule has assigned total proved plus probable reserves of 86.3 MMboe to our interest in this area at year end 2011.

West Central - The West Central Alberta properties are located approximately 230 kilometers northwest of Edmonton, Alberta. The West Central area contains six significant sub-properties: Obed, Pine Creek, Marlboro, Medicine Lodge, Kaybob, and Chip Lake and a number of minor properties. Historically, the major producing formations in the West Central area were the prolific gas charged Wabamun and Leduc reservoirs. In recent years, attention has focused on the shallower Montney, Notikewin, Bluesky, Gething and Wilrich zones. During 2011, development of the Bluesky and Wilrich zones with multi-staged stimulated horizontal wells was undertaken with strong results. Significant new reserves were added with the application of horizontal drilling. During 2012 horizontal wells will be drilled targeting the Cardium and Montney formations. Sproule has assigned total proved plus probable reserves of 37.2 MMboe to our interests in this area at year end 2011.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which we had a working interest as at December 31, 2011. Although many wells produce both oil and natural gas, a well is categorized as an oil well or a natural gas well based upon the proportion of oil or natural gas production that constitutes the majority of production from that well.

	Number and Status of Wells							
	Oil Wells				Natural Gas Wells			
	Producing Gross⁽¹⁾	Net	Non-Producing Gross	Net	Producing Gross⁽¹⁾	Net	Non-Producing Gross⁽¹⁾	Net
Alberta	519	380	210	145	1,328	624	392	210
British Columbia	-	-	4	2	5	3	5	3
Total	519	380	214	147	1,333	627	397	213

(1) Gross wells include unit wells

Properties with no Attributed Reserves

The following table sets out our undeveloped land holdings as at December 31, 2011. Our undeveloped land holdings have no reserves attributed to them.

Reserves Information

Undeveloped Land Holdings	Undeveloped Acres	
	Gross	Net
Alberta	907,346	717,443
British Columbia	97,328	66,473
Saskatchewan	18,939	18,939
Total	1,023,613	802,855

We expect that rights to explore, develop and exploit 105,000 net acres of our undeveloped land holdings will be subject to potential expiry within one year. We have no material work commitments on such properties and, where we determine appropriate, we may continue expiring leases by either making the necessary applications to extend or by performing the necessary work. Sinopec Daylight calculates gross undeveloped acres by including undrilled spacing units in each lease or license where we have a working interest. The net undeveloped acreage is calculated by multiplying the gross acreage by our working interest percentage.

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

This Management Annual Report ("Report") is dated April 30, 2012 and should be read in conjunction with the accompanying audited consolidated financial statements and notes for the period from incorporation on October 18, 2011 to December 31, 2011. The consolidated financial statements and other financial data presented have been prepared in accordance with *International Financial Reporting Standards* ("IFRS" or "GAAP"). All references are to Canadian dollars unless otherwise indicated.

NON-GAAP MEASURES

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

"Funds from operations" is a term utilized by Sinopec Daylight to evaluate operating performance and assess leverage. All references to funds from operations throughout the Report are based on cash provided by operating activities before the change in non-cash operating working capital and decommissioning expenditures less interest expense on bank debt and convertible debentures. Funds from operations does not represent net income (loss) for the period nor should it be viewed as an alternative to net income (loss) or other measures of financial performance calculated in accordance with IFRS. 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.

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

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

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

FORWARD-LOOKING STATEMENTS AND RISKS

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;
- 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.

RESULTS OF OPERATIONS

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

Production (for the period from December 23, 2011 to December 31, 2011)

- Sinopec Daylight's total production volumes averaged 42,017 boe per day.
- Average daily production was comprised of 153,492 Mcf per day of natural gas, 12,369 Bbls per day of light oil and 4,066 Bbls per day of NGLs.

Funds from Operations

- Funds from operations for the period ended December 31, 2011 totaled \$5.9 million.

Operating netback

- Total revenue for the 9 days of crude oil and natural gas operations ended December 31, 2011 was \$17.0 million. Sinopec Daylight's overall realized price was \$44.82 per boe. Sinopec Daylight realized a light oil price of \$91.54 per Bbl, NGLs realized \$61.84 per Bbl, and natural gas realized \$3.25 per Mcf.
- Royalties for the period were \$3.9 million with an overall royalty rate of 23.0% of revenue. Light oil and NGLs royalty rates for the period were 30.9% of revenue. Natural gas royalties during the period were 1.3% of revenue.
- Sinopec Daylight realized a loss on crude oil hedging of \$0.2 million or \$0.65 per boe. This hedge was acquired as part of the acquisition of Daylight and was fully realized at December 31, 2011.
- Sinopec Daylight's operating costs during the period were \$3.7 million or \$9.70 per boe.
- Sinopec Daylight's transportation expenses during the period were \$0.3 million or \$0.67 per boe.
- Sinopec Daylight's operating netback in the period was \$8.9 million or \$23.48 per boe.
- Sinopec Daylight's general and administrative expenses during the period were \$1.1 million or \$2.78 per boe.
- Sinopec Daylight's cash financial charges (excluding the duration fee of USD \$9.0 million) during the period were \$2.0 million or \$5.23 per boe. This includes interest on both the syndicated Canadian credit facilities and the Bank of China debt used to finance the acquisition of Daylight.
- Sinopec Daylight's funds from operations in the period was \$5.9 million or \$15.46 per boe.

Net Income

- Non-cash finance charges which include accretion of Sinopec Daylight's decommissioning liabilities and the amortization of the duration fee through finance charges totaled \$0.4 million or \$0.93 per boe.
- Depletion, depreciation and amortization totalled \$5.5 million or \$14.62 per boe.
- Deferred tax expense was \$2.3 million or \$6.19 per boe.
- Net income for the period was \$16.1 million or \$42.59 per boe.

Capital

Capital spending for the period was \$7.0 million. The capital spending during the period related to the drilling, completion and tie in of wells which were initiated under the Daylight capital program. Capital spending during the period was focused on the following:

- Drill & complete and recompleat - \$5.9 million
- Equipping and facilities - \$1.1 million

FINANCIAL POSITION

Pursuant to the Arrangement, effective December 23, 2011, 1635905 Alberta Ltd. acquired: (i) all of the issued and outstanding common shares of Daylight at a price of \$10.08 per share for total cash consideration of approximately \$2.2 billion; and (ii) all of the issued and outstanding Series D Debentures for a cash price of \$1,110 per \$1,000 principal amount of Series D Debentures (\$191.4 million), plus accrued and unpaid interest to the closing date (\$5.2 million), for a total debenture acquisition cost of \$196.6 million. Following the acquisition, 1635905 Alberta Ltd. amalgamated with Daylight to form Sinopec Daylight. The transaction was accounted for by the acquisition method based on fair values as follows:

Net Assets Acquired	
<i>(000s)</i>	
Property, plant and equipment	\$ 2,645,525
Exploration and evaluation assets	431,771
Goodwill	573,085
Investment in Gear Energy Ltd.	20,667
Bank debt	(540,329)
Working capital deficiency	(185,541)
Derivative instruments	(242)
Decommissioning obligations	(193,347)
Convertible debentures	(78,455)
Deferred tax liability	(259,701)
Total	\$ 2,413,433

The requisite number of holders of Daylight's 10% series C unsecured subordinated convertible debentures ("Series C Debentures") did not vote in favour of the Arrangement and therefore the Series C Debentures did not participate in the Arrangement and remained issued and outstanding at December 31, 2011. Sinopec Daylight redeemed all of the issued and outstanding Series C Debentures effective January 23, 2012.

The following summarizes the Statement of Financial Position of Sinopec Daylight at December 31, 2011:

- At December 31, 2011, Sinopec Daylight's property, plant and equipment totaled \$2.6 billion, exploration and evaluation assets totaled \$0.4 billion and goodwill totaled \$0.6 billion.
- Sinopec Daylight had USD \$2.2 billion available under a credit facility with Bank of China under which USD \$1.5 billion was drawn at December 31, 2011. The facility is guaranteed by CPC.
- At December 31, 2011, \$471.4 million of bank debt was drawn against the Canadian syndicated credit facilities. These facilities have \$650 million available under them and are secured by a \$1.0 billion demand debenture over Sinopec Daylight's petroleum and natural gas assets.
- Tax pools of approximately \$1.8 billion at December 31, 2011 are available to shelter cash flow from income tax in current periods and beyond.
- On January 23, 2012, the Company redeemed all outstanding Series C Debentures by way of a cash payment in the aggregate amount of \$73.4 million. This amount represented a payment of \$1,050 per \$1,000 principal amount debenture, and in addition, accrued and unpaid interest up to but excluding the redemption date of \$0.4 million was also paid. The redeemed Series C Debentures were cancelled and de-listed from the Toronto Stock Exchange at the close of markets on January 23, 2012. Effective

Management Annual Report

February 9, 2012, Sinopec Daylight ceased to be a reporting issuer in each province and territory of Canada.

Management Responsibility Statement

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

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

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

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

Signed "*Anthony Lambert*"

Anthony Lambert
President and CEO

Signed "*Steve Nielsen*"

Steve Nielsen
Vice President and CFO

Calgary, Alberta
April 30, 2012

Independent Auditor's Report

To the Directors of Sinopec Daylight Energy Ltd.

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 control 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Signed "KPMG LLP"

Chartered Accountants
April 30, 2012
Calgary, Canada

Consolidated Statement of Financial Position



(in thousands of Canadian dollars)

	December 31, 2011
Assets	
Current assets	
Restricted cash (note 6)	\$ 82,662
Accounts receivable (note 20)	77,153
Prepaid expenses and deposits	4,738
	164,553
Investments (note 7)	22,667
Property, plant and equipment (note 8)	2,647,237
Exploration and evaluation assets (note 9)	431,771
Goodwill (note 5)	573,085
	\$ 3,839,313
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	\$ 263,745
Due to the Company's shareholder (note 16)	9,662
Convertible debentures (note 11)	78,455
Bank debt - Syndicated Canadian Facilities (note 10)	471,363
Bank debt - Bank of China Facility (note 10)	1,516,424
	2,339,649
Decommissioning obligations (note 13)	193,760
Deferred tax liability (note 14)	262,041
	2,795,450
Shareholders' Equity	
Share capital (note 15)	1,027,756
Retained earnings	16,107
	1,043,863
	\$ 3,839,313

Commitments and contingencies (note 21)

Subsequent events (notes 7, 10, 11 and 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

Signed "Hou Hongbin"
Director

Signed "Wu Chengliang"
Director



Consolidated Statement of Income and Comprehensive Income

For the period from incorporation on October 18, 2011 to December 31, 2011

(in thousands of Canadian dollars, except per share amounts)

Revenues	
Oil and natural gas	\$ 16,950
Royalties	(3,902)
Oil and natural gas, net	13,048
Unrealized gain on foreign exchange (note 20)	16,236
Gain on financial instruments (note 20)	1,997
	31,281
Expenses	
Operating	3,668
Transportation	252
General and administrative	1,053
Finance charges (note 12)	2,332
Depletion, depreciation and amortization (note 8)	5,529
	12,834
Income before taxes	18,447
Deferred tax expense (note 14)	2,340
	16,107
Net income and comprehensive income	\$ 16,107

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity



For the period from incorporation on October 18, 2011 to December 31, 2011

(in thousands of Canadian dollars)

		Share Capital	Retained Earnings	Total Equity
Net income	\$	-	\$ 16,107	\$ 16,107
Share issuance (note 15)		1,027,756	-	1,027,756
Balance at December 31, 2011	\$	1,027,756	\$ 16,107	\$ 1,043,863

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows



For the period from incorporation on October 18, 2011 to December 31, 2011

(in thousands of Canadian dollars)

Cash provided by (used in):

Net income	\$	16,107
Items not affecting cash:		
Depletion, depreciation and amortization (note 8)		5,529
Deferred tax expense (note 14)		2,340
Decommissioning accretion (note 13)		128
Unrealized gain on foreign exchange		(16,236)
Unrealized gain on financial instruments (note 20)		(2,242)
Interest expense (note 12)		2,204
Change in non-cash operating working capital (note 19)		(2,114)
Cash provided by operating activities		5,716

Financing

Syndicated Canadian Facility (note 10)		(68,966)
Bank of China Facility (note 10)		1,541,634
Interest paid		(494)
Debt transaction costs		(9,301)
Funds advanced from the Company's shareholder (note 16)		9,764
Issue of common shares (note 15)		1,027,756
Change in non-cash financing working capital (note 19)		(82,662)
Cash provided by financing activities		2,417,731

Investing

Property, plant and equipment additions (note 8)		(6,956)
Corporate acquisition of Daylight Energy Ltd. (note 5)		(2,413,433)
Change in non-cash investing working capital (note 19)		(3,058)
Cash used in investing activities		(2,423,447)

Change in cash		-
Cash, beginning of period		-

Cash, end of period	\$	-
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See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

1. REPORTING ENTITY

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

Sinopec Daylight is domiciled and incorporated in the Province of Alberta and is involved in the exploration, exploitation, development and production of oil and natural gas in Alberta and British Columbia. The registered office of the Company is Suite 3500, Bankers Hall East Tower, 855 - 2nd Street South West, Calgary, Alberta, Canada T2P 4J8.

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

- 1199549 Alberta Ltd.
- 1431509 Alberta Ltd.
- Daylight Energy Partnership
- West Energy Partnership
- Daylight Energy Trust
- Sequoia Oil & Gas Trust

The results of operations for Daylight, as well as the above noted subsidiaries, and partnership interests, are included in these consolidated financial statements from the date of amalgamation, being December 23, 2011.

2. BASIS OF PRESENTATION

Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2012.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for assets and liabilities stated at fair value relating to derivative instruments and investments held for trading. The methods used to measure fair values are discussed further in note 20.

Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars which is the Company's and its subsidiaries' and partnerships' functional currency. All financial information presented has been rounded to

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

the nearest thousand dollars. In cases where United States dollars are referred to, the amounts will be identified by "USD".

Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined below.

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of Sinopec Daylight's assets in current and future periods.

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

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

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

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

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

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.

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

Basis of Consolidation

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

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

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

Business Combinations and Goodwill

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

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

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Pre-license costs

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

Exploration and evaluation assets ("E&E")

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

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

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

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

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

Property, plant and equipment

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

Subsequent costs

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

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

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

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

Depletion, depreciation and amortization

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

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

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Corporate assets primarily consist of office furniture, fixtures, leasehold improvements, and information technology which are stated at cost less accumulated depreciation and are depreciated on a declining balance basis at rates ranging from 20% to 30%.

Assets Held for Sale

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

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

Impairment

Non-financial assets

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

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

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. Exploration and evaluation assets are combined with all CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

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Financial assets

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

Provisions

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

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

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

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

Revenue

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

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

Finance Charges

Finance charges comprise interest expense on borrowings, including bank debt, payable due to the Company's shareholder and convertible debentures, the amortization of annual financing fees, and the accretion of the discount on provisions. Borrowing costs are recognized in net income using the effective interest method and

Notes to the Consolidated Financial Statements

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are recognized in income in the period in which they are incurred. Borrowing costs for the construction of a qualifying asset are capitalized for the period of time from when construction commences 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 tax payable in respect of previous years.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Cash and Cash Equivalents

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

Investments

Investments in which the Company may exercise significant influence are accounted for using the equity method. The recorded amount of the investment is increased or decreased for the Company's ownership percentage of the company's net income or loss and reduced by dividends paid to the Company. The Company evaluates the carrying value of its equity investments at least annually or more frequently should economic events dictate. If there has been a decline in value of an investment, other than a temporary decline, the investment is written down to its market value and the impairment charged to net income.

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

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Share Capital

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

Financial Instruments

Financial assets

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

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

- *Loans and receivables* - This category of financial assets includes cash, restricted cash and accounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired as well as through the amortization process.
- *Financial assets at fair value through profit or loss* - Investments, other than equity method investments, and derivative instruments, other than those designated as effective hedging instruments, are included in this category. Derivative instruments are further described below. These instruments are designated at fair value through profit or loss upon initial recognition. These financial assets are carried on the statement of financial position at fair value with gains or losses recognized in the income statement. The fair value of investments is determined by reference to their market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.
- *Financial assets held-to-maturity* - Held-to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has a positive intention and ability to hold to maturity and which have not been designated into one of the other three categories on initial recognition. Such financial assets are carried at amortized cost using the effective interest rate method. The Company has no financial assets in this category.
- *Available-for-sale financial assets* - Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not otherwise classified into the other three categories on initial recognition. These financial instruments are measured at fair value, with gains or losses recognized within other comprehensive income. The Company has no financial assets in this category.

Financial liabilities

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

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

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

Foreign Exchange

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

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

4. CHANGES IN ACCOUNTING POLICES

Future Accounting Changes

The following pronouncements from the IASB will become effective for financial reporting periods as noted. Unless otherwise noted, the Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

The following standards have been revised and are effective for annual periods that begin on or after July 1, 2011, with early adoption permitted:

- IFRS 1 - *First-time Adoption of International Financial Reporting Standards* contains minor revisions to the standard, but will have no impact to the Company.

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- IFRS 7 - *Financial Instruments, Disclosures* enhances the disclosures required for derecognized financial assets that have been transferred including identification of transfers, continuing exposure for partially transferred or derecognized assets. Disclosures do not have to be provided for dates prior to the date of initial application. The Company does not anticipate any impact as a result of this standard.

The following new or revised standards are effective beginning on or after January 1, 2013. All of these new or revised standards permit early adoption. It should be noted that if early adopted, all 5 of these new/revised standards listed below must be adopted at the same time:

- IFRS 10 - *Consolidated Financial Statements* builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11 - *Joint Arrangements* establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.
- IFRS 12 - *Disclosure of Interest in Other Entities* provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.
- IAS 27 - *Separate Financial Statements* revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.
- IAS 28 - *Investments in Associate and Joint Ventures* revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The following standards are new or revised, and are effective for annual periods as noted. Early adoption is permitted for each:

- IAS 12 - *Income Taxes* provides incremental guidance on tax rates to be used when non-depreciable assets are re-valued and investment property measured using the fair value model. These revisions are effective for annual periods beginning on or after January 1, 2012. Disclosure of early adoption is required.
- IAS 1 - *Presentation of Financial Statements* has been revised to require other comprehensive income ("OCI") being split into two parts, namely, OCI not reclassified and OCI reclassified, with related tax following the classification. The intent is to provide clarity around items that are expected to recycle through profit and loss and those that will not. This standard is effective for annual periods beginning on or after July 1, 2012.
- IFRS 13 - *Fair Value Measurement* defines fair value, outlines disclosure requirements regarding fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. This new standard is effective for annual periods beginning on or after January 1, 2013. Disclosure of early adoption is required.
- IFRS 9 - *Financial Instruments* addresses the classification and measurement of financial assets. The effective date of this standard has been recently changed to be effective for periods beginning on or after January 1, 2015.

5. BUSINESS COMBINATION

On December 23, 2011, 1635905 Alberta Ltd. acquired all of the issued and outstanding common shares and Series D Debentures of Daylight, a publicly traded petroleum and natural gas company with operations in Alberta and British Columbia. SIPC, through its indirect wholly-owned subsidiary, 1635905 Alberta Ltd., acquired Daylight to expand and diversify its investments in crude oil and natural gas assets and gain exposure to the conventional North American energy sector. As consideration, 1635905 Alberta Ltd. paid cash of \$10.08

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per common share for purchase proceeds of approximately \$2.2 billion, and \$1,110 per \$1,000 principal amount of Series D Debentures, plus accrued and unpaid interest to the closing date, totaling \$196.6 million.

The goodwill resulting from the acquisition amounted to \$573.1 million and can be attributed to an assembled workforce and management team as well as entrance into the Canadian conventional oil and gas market. The goodwill is not deductible for tax purposes.

There was no change to goodwill from the date of acquisition to December 31, 2011.

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

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

Consideration

Cash	\$ 2,413,433
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The requisite number of holders of Daylight's 10% series C unsecured subordinated convertible debentures ("Series C Debentures") did not vote in favour of the Arrangement and therefore the Series C Debentures did not participate in the Arrangement and remained issued and outstanding at December 31, 2011. Sinopec Daylight announced on December 23, 2011 its intention to redeem all of the issued and outstanding Series C Debentures for a cash amount equal to \$1,050 per \$1,000 principal amount of Series C Debentures, plus accrued and unpaid interest up to but excluding the redemption date of January 23, 2012 (see note 11).

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

Pro forma revenues and loss for the combined entity for the period October 18 to December 31, 2011 would have been \$92.8 million and \$12.2 million, respectively.

Revenue and loss contributed by Daylight subsequent to the acquisition for the period December 23 to December 31, 2011 was \$15.0 million and \$5.1 million, respectively.

6. RESTRICTED CASH

At December 31, 2011, the Company recorded restricted cash of \$82.7 million, representing funds provided by SIPC to be used to either: (i) redeem all the issued and outstanding Series C Debentures, including accrued and unpaid interest up to but excluding the redemption date of January 23, 2012 (see note 11); or (ii) satisfy the cash amount payable to holders of Series C Debentures who converted such debentures for a cash payment, in accordance with their terms, prior to the redemption date of January 23, 2012 (see note 11).

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7. INVESTMENTS

<i>(000s, except number of shares)</i>	December 31, 2011	
	Number of Shares	Fair Value
Gear Energy Ltd.	9,066,666	\$ 22,667

The investment in Gear Energy Ltd. ("Gear") results from a July 14, 2010 disposition by Daylight of certain working interests in oil and natural gas properties in eastern Alberta to Gear, and includes incremental share issuances pursuant to the share rights agreement that was part of this transaction. Gear is not a listed entity, and there is currently no liquid trading market in respect of Sinopec Daylight's investment in Gear's common shares.

At December 31, 2011, the investment in Gear was recorded at fair value, being \$2.50 per common share. A further 800,000 common shares were recorded on December 31, 2011, pursuant to the original share rights agreement, and were valued at \$2.50 per common share. No cash consideration was paid relating to the incremental 800,000 common shares issued. This increase in investment of \$2.0 million was recorded as an unrealized gain on investment in the consolidated statement of income for the period ended December 31, 2011 and has been included in the shares outlined in the table above.

Subsequent to year-end, Sinopec Daylight disposed of 750,000 shares at \$2.20 per share, resulting in a loss of \$0.2 million.

8. PROPERTY, PLANT AND EQUIPMENT

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

Amounts Excluded from Calculation of Depreciation, Depletion and Amortization

	December 31, 2011
Future salvage value of production equipment and facilities	\$ 25,030
Undeveloped land and acquired resource properties without proved reserves	\$ 1,455,536

Security

At December 31, 2011, the Company continued to secure its syndicated Canadian credit facilities with a \$1.0 billion demand debenture over its oil and natural gas assets. See note 10(b).

Impairment Tests

Sinopec Daylight performed its required annual impairment test for goodwill. As the acquisition of Daylight, to which the goodwill was attributed, occurred on December 23, 2011, only 9 days prior to year-end, the recognized amounts in note 5 were reflective of the fair value of the net assets and any goodwill assigned. The

Notes to the Consolidated Financial Statements

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fair values assigned were principally based on discounted cash flows generated from an independently evaluated reserve report and based on the forecasted commodity prices derived by the independent reserve engineers, as noted below. Any change in any assumptions would have a direct impact on the goodwill ascribed through the purchase equation. Thus a 10% change in the fair values ascribed to the oil and gas assets would result in a \$230.8 million impairment of goodwill.

Benchmark Reference Price Forecasts

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
WTI (\$US/Bbl)	98.07	94.90	92.00	97.42	99.37	101.35	103.38	105.45	107.56	109.71
Edmonton par (\$Cdn/Bbl)	96.87	93.75	90.89	96.23	98.16	100.12	102.12	104.17	106.25	108.38
AECO (\$Cdn/MMBtu)	3.16	3.78	4.13	5.53	5.65	5.77	5.89	6.01	6.14	6.27
Exchange rate (\$US/\$Cdn)	1.012	1.012	1.012	1.012	1.012	1.012	1.012	1.012	1.012	1.012

After 2021 the price forecast for WTI, Edmonton par and AECO escalates at 2.0% per year to the end of the reserve life and the exchange rate remains constant at 1.012.

9. EXPLORATION AND EVALUATION ASSETS

Cost

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

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

10. BANK DEBT

The Company has two separate bank facilities as at December 31, 2011: (a) an unsecured credit facility with the Bank of China guaranteed by CPC; and (b) the Syndicated Canadian Facility (as defined below). Details of the respective facilities are as follow:

- a) On December 20, 2011, 1635905 Alberta Ltd. entered into a bank facility agreement with the Bank of China (the "Bank of China Facility") to borrow up to USD \$2.2 billion. This facility can be drawn upon for up to 6 months from December 20, 2011, subject to certain conditions. As part of the funding for the acquisition of Daylight, USD \$1.5 billion was drawn as at December 31, 2011. All amounts drawn under the facility are due December 20, 2016. This loan is guaranteed by CPC and interest is payable based on LIBOR plus a margin. A duration fee of USD \$9.0 million was incurred and netted against proceeds, on the issuance of this debt, with annual duration fees payable on the principal outstanding. This duration fee is offset against the debt and financing expenses are adjusted on a straight line basis to reflect this incremental annual charge. This USD denominated debt is translated to Canadian dollars at the period end rate, with any foreign exchange differences booked to profit and loss.

The amalgamation of 1635905 Alberta Ltd. and Daylight to form Sinopec Daylight on December 23, 2011 resulted in an inadvertent breach of the covenants under the Bank of China Facility. As a result, the bank debt under the Bank of China Facility has been classified as current debt at December 31, 2011.

The Bank of China Facility requires that CPC maintain certain financial covenants as guarantor of the facility (see also note 17), and requires that the Company comply with certain covenants, including compliance with applicable laws.

- b) Sinopec Daylight assumed the former Daylight credit facilities ("Syndicated Canadian Facilities" or "Syndicated Canadian Facility") and associated debt on completion of the Arrangement. Under the Syndicated Canadian Facility, a syndicate of banks provides \$650 million in revolving term credit facilities, of which \$471.4 million was drawn at December 31, 2011. The effective interest rate for the

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credit facilities was 3.74% for the period ended December 31, 2011. The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of \$1.0 billion over the oil and natural gas properties and are subject to semi-annual reviews where the lenders may redetermine the borrowing base. The available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves and future commodity prices.

Upon closing of the Arrangement, an event of default under the Syndicated Canadian Facilities occurred. The event of default was triggered as the Bank of China Facility was not technically classified as "permitted indebtedness" under the Syndicated Canadian Facilities. As a result, the bank debt under the Syndicated Canadian Facilities has been classified as current debt at December 31, 2011. Effective April 13, 2012, the indebtedness drawn under the Syndicated Canadian Facilities was repaid in full from existing available credit under the Bank of China Facility, and in conjunction therewith, the lenders provided a release to the Company and the security in respect of such facilities was discharged. Sinopec Daylight is currently examining several options to provide ongoing liquidity and funding which may include entering into new or additional credit arrangements with third party lenders.

Sinopec Daylight's parent company, SIPC, continues to provide financial support for Sinopec Daylight to continue its capital program and crude oil and natural gas operations. Subsequent to December 31, 2011, Sinopec Daylight has received \$301.7 million in additional funding from SIPC.

11. CONVERTIBLE DEBENTURES

At December 31, 2011, the Company had Series C Debentures outstanding, with details as follows:

- Face value for redemption \$74.7 million
- Redemption value including premium \$78.5 million

On January 23, 2012, the Company redeemed all outstanding Series C Debentures by way of a cash payment in the aggregate amount of \$73.4 million. This amount represented a payment of \$1,050 per \$1,000 principal debenture outstanding at January 23, 2012 (the "Redemption Date"). Accrued and unpaid interest up to but excluding the Redemption Date was also paid. Approximately \$4.8 million Series C Debentures were converted by debentureholders, in accordance with their terms, between January 1, 2012 and January 22, 2012 in exchange for a cash payment. The redeemed Series C Debentures were cancelled and delisted from the Toronto Stock Exchange at the close of markets on January 23, 2012.

12. FINANCE CHARGES

	Period ended December 31,	
	2011	
Bank debt interest	\$	1,795
Convertible debenture interest		184
Amortization of bank financing fee (note 10)		225
Accretion of decommissioning obligations		128
Total	\$	2,332

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13. DECOMMISSIONING OBLIGATIONS

Liabilities incurred on corporate acquisition (note 5)	\$	193,347
Liabilities incurred		285
Accretion expense		128
Balance at December 31, 2011	\$	193,760

Sinopec Daylight's decommissioning obligations result from its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The provision for the costs of reclaiming and abandoning these wells and facilities at the end of their economic lives has been estimated using existing technology, at current prices or long-term assumptions, depending on the expected timing of the activity, and discounted using a risk free rate of 2.5%. Sinopec Daylight estimates the total undiscounted inflation adjusted cash flow required to settle its decommissioning obligation is approximately \$426.1 million which will be incurred before 2060 with the majority of the costs to be incurred between 2019 and 2059. An inflation factor of 2% has been applied to the estimated decommissioning obligations at December 31, 2011.

14. INCOME TAXES

Deferred Tax Expense (Reduction)	Period ended December 31, 2011	
Origination and reversal of temporary differences	\$	2,477
Changes in tax rates		(137)
Total	\$	2,340

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

Reconciliation of Effective Tax Rate	Period ended December 31, 2011	
Income before taxes	\$	18,447
Statutory income tax rate		26.51%
Expected tax expense	\$	4,890
Add (deduct):		
Non-taxable portion of capital gains		(2,418)
Deferred rate adjustments		(137)
Other		5
Deferred tax provision	\$	2,340

In 2011, the blended statutory tax rate was 26.51%.

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

Movement in and Components of Deferred Tax Liability

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

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

Expiry of Non-capital Losses

	December 31, 2011
2022	\$ 8,672
2023	62,586
2024	139,557
2025	6,642
2026	250,560
2027	1
2028	19,523
2029	252
2031	130,010
Total	\$ 617,803

At December 31, 2011, Sinopec Daylight had an unrecognized deferred tax liability of \$0.8 million for aggregate taxable temporary differences of \$3.1 million associated with its investments in subsidiaries because the Company controls whether the profits will be distributed and it is satisfied that it will not be incurred in the foreseeable future.

Notes to the Consolidated Financial Statements

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

15. SHAREHOLDERS' EQUITY

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

Issued and Outstanding Common Shares	Number of Shares	Amount
Issued on Incorporation	100	\$ -
Issued on December 21, 2011	1,027,756,000	1,027,756
Balance at December 31, 2011	1,027,756,100	\$ 1,027,756

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 Shareholders' 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 for debt owed to the Company.

16. RELATED PARTY TRANSACTIONS

Transactions between related parties are recorded at the exchange amount agreed to between them. Unless otherwise noted in these financial statements, the exchange amount approximates fair value at the date of transaction and is premised on terms common to transactions entered into with arm's length parties.

In conjunction with the acquisition of Daylight by the 1635905 Alberta Ltd., the Company's shareholder loaned USD \$9.5 million to 1635905 Alberta Ltd., USD \$9.0 million of which related to financing fees paid on the Bank of China credit facility. This non-interest bearing payable is due on demand and remained outstanding at December 31, 2011. The USD denominated payable due to the Company's shareholder is translated to Canadian dollars at the period end rate, with any foreign exchange differences on unrealized gains and losses booked to the profit and loss.

Sinopec Daylight's key management personnel have been identified as the nine directors as well as the executive management team of the Company, including the President & Chief Executive Officer (who is also a director), Chief Operating Officer, Chief Financial Officer and Chief Legal Officer (who is also a director). At December 31, 2011, all of Daylight's executive management team are Canadian citizens as well as four of the directors. During the period from incorporation on October 18, 2011 to December 31, 2011, total compensation received by the executive management team and Canadian directors was less than \$0.1 million and related to salaries and short-term benefits. The five non-Canadian directors did not receive compensation for their positions during the period.

17. 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

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

vice-premiers, five standing committee members and 25 ministers. It oversees more than 80 ministries, institutions (such as the China Investment Corporation "CIC"), state administrations and bureaus, commissions and the special organization referred to as the State-Owned Assets Supervision & Administration ("SASAC").

CPC is controlled by SASAC which reports to the state council. The Bank of China (Luxembourg) S.A. and Bank of China Limited are controlled by Central Huijin Investment which is part of CIC and CIC reports to the State Council.

Note 10 describes the loan from the Bank of China, obtained to finance the acquisition of Daylight on December 23, 2011 (see also note 5). This loan is wholly guaranteed by CPC.

18. SUPPLEMENTAL DISCLOSURE

Sinopec Daylight's consolidated statement of income and comprehensive income is prepared primarily by nature of expense with the exception of employee compensation costs which are included in both operating and general and administrative expenses. Compensation costs totaling \$0.5 million are included in general and administrative expenses (before the impact of overhead recoveries) and \$0.2 million are included in operating expenses for the period ended December 31, 2011.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital	Period ended December 31, 2011
Source (use) of cash:	
Working capital deficiency acquired (note 5)	\$ (185,541)
Accounts receivable	(77,153)
Restricted cash	(82,662)
Prepaid expenses and deposits	(4,738)
Accounts payable and accrued liabilities	263,745
Change in non-cash working capital	\$ (86,349)
Reconciling item:	
Interest paid less interest expense	(1,485)
	\$ (87,834)
Relating to:	
Operating activities	\$ (2,114)
Financing activities	(82,662)
Investing activities	(3,058)
Change in non-cash working capital	\$ (87,834)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following table provides fair value measurement information for financial assets as of December 31, 2011. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and due to the Company's shareholder included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments. The Company's current bank debt bears interest at floating market rates and, accordingly, the fair value approximates the carrying amount. The carrying value of the convertible debentures approximates fair value given their short term nature as at December 31, 2011 as the Company exercised its option to redeem the debentures on December 23, 2011. These assets and liabilities are not included in the following table.

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

Fair Value of Financial Assets at December 31, 2011

	Carrying Amount	Fair Value	Fair Value Measurements Level 1	Fair Value Measurements Level 2
Investments	\$ 22,667	\$ 22,667	\$	22,667

Level 1 fair value measurements are 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. Investments held for trading comprising the shares held in Gear are fair valued using trading prices obtained from secondary markets and are included in Level 2.

Level 3 fair value measurements are based on unobservable information. At December 31, 2011, Sinopec Daylight does not have any financial assets and liabilities measured using Level 3 fair value.

Gain (Loss) on Financial Instruments

	Period ended December 31, 2011
Unrealized gain on investment held for trading (note 7)	\$ 2,000
Realized loss on derivative instruments	(245)
Unrealized gain on derivative instruments acquired on acquisition (note 5)	242
Total	\$ 1,997

Risk Management Overview

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

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

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

Credit Risk

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

Aging of Outstanding Receivable Balances

	December 31, 2011
Current (90 days or less)	\$ 61,751
Past due (more than 90 days)	15,402
Total	\$ 77,153

Sinopec Daylight has provided an allowance for doubtful accounts as at December 31, 2011 of \$2.9 million which relates primarily to working capital assumed on corporate acquisitions.

Notes to the Consolidated Financial Statements

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

The Company does not typically obtain collateral from its oil and natural gas marketers, joint venture parties or counterparties to derivative instruments. The credit risk exposure for oil and natural gas marketers and derivative instruments 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.

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

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

For the period ended December 31, 2011, revenues totalling \$2.8 million and \$2.5 million were due from two customers and each amounted to more than 10% of total revenue for this period.

Liquidity Risk

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

Sinopec Daylight has the support of its operating parent, SIPC, and its ultimate parent, CPC. Sinopec Daylight monitors its cash inflows and outflows and required financing for capital expenditures. SIPC provides funding as required. Sinopec Daylight prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Sinopec Daylight utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate timing and liquidity requirements as well as a desirable low cost of capital, Sinopec Daylight has revolving reserve-based credit facilities, as outlined in note 10, that are reviewed at least annually by the lender.

The Bank of China Facility provides a \$2.2 billion term loan which is repayable on December 20, 2016. This facility is guaranteed by CPC and Sinopec Daylight can draw upon this facility for up to six months from December 20, 2011. Details are outlined in note 10.

Contractual Maturities of Financial Liabilities

	< 1 Year	1 - 2 Years	3 - 5 Years
Accounts payable and accrued liabilities	\$ 263,745	\$ -	\$ -
Bank debt - Syndicated Canadian Facilities (note 10)	471,363	-	-
Bank debt - Bank of China principal (note 10)	1,525,500	-	-
Convertible debentures (note 11)	78,455	-	-
Due to the Company's shareholder (note 16)	9,662	-	-
Total	\$ 2,348,725	\$ -	\$ -

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,

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

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 mitigates commodity price risk through the use of various physical delivery sales contracts. All such transactions are conducted in accordance with the Company's established risk management procedures.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in either the Bank of Canada market interest rates or LIBOR rates will impact the Company's bank debt, both Syndicated Canadian Facilities and Bank of China Facility, which are subject to floating interest rates accordingly. Assuming all other variables remain constant, an increase or decrease of 1% in the Bank of Canada market interest rates in the period ended December 31, 2011 would have decreased or increased net income by \$0.1 million. Similarly, an increase or decrease of 1% in LIBOR rates in the period ended December 31, 2011 would have decreased or increased net income by \$0.5 million. The Company's convertible debentures are not exposed to interest rate risk as their interest rate is fixed. The Company had no interest rate swaps or financial contracts in place as at or during the period ended December 31, 2011.

Carrying Amount of Interest-bearing Financial Instruments

	December 31, 2011
Bank debt - Syndicated Canadian Facilities (note 10)	\$ 471,363
Bank debt - Bank of China principal (note 10)	1,525,500
Convertible debentures (note 11)	78,455
Total	\$ 2,075,318

Foreign currency exchange rate risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. Therefore, the effects of foreign exchange fluctuations are embedded in the Company's results and the total effect of foreign exchange fluctuations are not separately identifiable. At December 31, 2011, the Company has both bank debt owed to Bank of China (USD \$1.5 billion) and a payable due to the Company's shareholder (USD \$9.5 million) that are based in US dollars. Fluctuations in the US dollar exchange rate will impact exchange gains and losses recorded in profit and loss.

The unrealized gain on foreign exchange of \$16.2 million relates to the USD \$1.5 billion debt outstanding and USD \$9.5 million owing to the Company's shareholder at December 31, 2011.

A \$0.01 increase in the US to Canadian exchange rate would have increased the debt recorded by \$15.1 million and decreased the unrealized foreign exchange gain by \$15.1 million. A \$0.01 decrease in the US to Canadian exchange rate would result in the same magnitude of change, but in the opposite direction.

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For the period from incorporation on October 18, 2011 to December 31, 2011

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

Capital Management

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

Capital Structure

	December 31, 2011
Bank debt - Syndicated Canadian Facility (note 10)	\$ 471,363
Bank debt - Bank of China principal (note 10)	1,525,500
Due to the Company's shareholder	9,662
Convertible debentures (note 11)	78,455
Working capital deficiency (excluding bank debt, convertible debentures and due to Company's shareholder)	99,192
Net debt	\$ 2,184,172
Shareholders' equity	\$ 1,043,863

The Company monitors its capital structure with consideration of the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, as defined above, divided by trailing funds from operations on an annualized basis. The Company's strategy is to maintain a ratio of annualized funds from operations to net debt that is considered reasonable and prudent in the circumstances. This ratio may increase at certain times. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices and production levels, the success of the capital expenditure program and general industry conditions. The Company also manages its capital structure and debt position using debt to capitalization. At December 31, 2011, Daylight's debt to capitalization ratio was 68% calculated as follows:

Debt to Capitalization Ratio

	December 31, 2011
Bank debt - Syndicated Canadian Facility (note 10)	\$ 471,363
Bank debt - Bank of China principal (note 10)	1,525,500
Convertible debentures (note 11)	78,455
Due to the Company's shareholder	9,662
Working capital deficiency excluding bank debt, convertible debentures and due to Company's shareholder)	99,192
Debt	\$ 2,184,172
Shareholders' Equity	1,043,863
Capitalization	\$ 3,228,035
Debt to Capitalization	68%

Notes to the Consolidated Financial Statements

For the period from incorporation on October 18, 2011 to December 31, 2011

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

21. COMMITMENTS AND CONTINGENCIES

The following is a summary of Sinopec Daylight's contractual obligations and commitments as at December 31, 2011:

Commitments

	2012	2013	2014	2015	2016	Thereafter
Operating leases	\$ 5,465	\$ 5,401	\$ 5,352	\$ 5,140	\$ 5,099	\$ 11,444
Natural gas transportation	3,902	3,710	3,070	1,580	597	203
Due to the Company's shareholder	9,662	-	-	-	-	-
Convertible Debentures (note 11)	78,455	-	-	-	-	-
Bank debt - Canadian Syndicated Facility (note 10)	471,363	-	-	-	-	-
Bank debt - Bank of China principal (note 10)	1,525,500	-	-	-	-	-
	\$ 2,094,347	\$ 9,111	\$ 8,422	\$ 6,720	\$ 5,696	\$ 11,647

As disclosed in note 10, an annual duration fee on the Bank of China Facility of 0.6% of the debt balance is payable on the outstanding balance on the December 20 anniversary date each year.

Subsequent to year end, the Company entered into drilling program contracts which commit Sinopec Daylight to minimum annual payments of approximately \$0.6 million in 2012, \$11.1 million in each of 2013 through 2015 and \$10.5 million in 2016.

In addition to the above, the following commitment and contingencies exist at December 31, 2011:

Legal Claims Contingency

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

Income and Other Tax Uncertainties

The Company files income tax, goods and service 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.