accounting guideline
AcG-16
oil and gas accounting — full cost

TABLE OF CONTENTS

PURPOSE AND SCOPE

1 Canadian oil and gas companies account for exploration and development costs using either the "full cost" or "successful efforts" accounting method. This Guideline presents the views of the Accounting Standards Board on the application of the full cost method of accounting for oil and gas exploration, development and production activities.

2 In developing this Guideline, no attempt was made to resolve the question of whether full cost, successful efforts or some other accounting method would be preferable. The Board neither recommends nor discourages the use of the full cost method of accounting.

3 The Guideline does not deal with:

(a) the extraction by mining processes of hydrocarbons from shale, tar sands, or coal; and

(b) the transporting, refining and marketing of oil and gas.

DEFINITIONS

4 The following terms are used in this Guideline with the meanings specified:

(a) **Acquisition costs of properties** are costs incurred to acquire a property (directly by purchase or lease, or indirectly by acquiring another corporate entity with an interest in the property), including costs of lease bonuses and options to purchase or lease a property, the portion of costs applicable to hydrocarbons when land including rights to hydrocarbons is purchased in fee, brokers' fees, recording and registration fees, legal costs, and other costs incurred in acquiring properties. Properties include:

(i) fee ownership or a lease, concession, agreement, permit, license or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest;

(ii) royalty interests, production payments payable in oil or gas and other non-operating interests in properties operated by others; and

(iii) those agreements with foreign governments or authorities under which an enterprise participates in the operation of properties or otherwise serves as "producer" of the underlying reserves (in contrast to being an independent purchaser, broker, dealer, or importer).

Properties do not include other supply agreements or contracts that represent the right to purchase, rather than extract, oil and gas.

(b) A **cost centre** comprises the oil and gas activities of an enterprise that are within the geographical boundaries of a country. There shall be one and only one cost centre for each country in which an enterprise has oil and gas activities.

(c) **Development costs** are costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(i) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;

(ii) drill and equip development wells, development-type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;

(iii) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and

(iv) provide improved recovery systems.

(d) A **development well** is a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

(e) **Exploration costs** are costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

(i) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as geological and geophysical or "G & G" costs);

(ii) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;

(iii) dry hole contributions and bottom hole contributions;

(iv) costs of drilling and equipping exploratory wells; and

(v) costs of drilling exploratory-type stratigraphic test wells.

(f) An **exploratory well** is a well that is not a development well, a service well, or a stratigraphic test well as those are defined.

(g) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(h) **Probable reserves** are estimated remaining quantities of oil and natural gas and related substances that, upon analysis of drilling, geological, geophysical and engineering data, are anticipated to be recoverable from a given date forward, from known accumulations using established technology, but with less certainty than proved reserves. There is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves. Probable reserves are estimated using estimated future prices and costs.

(i) A **proved property** is a property or part of a property to which proved reserves have been specifically attributed. An unproved property is a property or part of a property with no proved reserves.

(j) **Proved reserves** are estimated remaining quantities of oil and natural gas and related substances that, upon analysis of drilling, geological, geophysical and engineering data, are anticipated with a high degree of certainty to be recoverable from a given date forward, from known accumulations using established technology. Proved reserves are estimated using estimated future prices and costs. There is at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves. Depending upon their status of development, such proved reserves are subdivided into proved developed reserves and proved undeveloped reserves.

(k) **Proved developed reserves** are proved reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production.

Proved developed reserves include both of the following reserves:

(i) Proved developed producing reserves — those reserves that are expected to be produced from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

(ii) Proved developed non-producing reserves — those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

(l) **Proved undeveloped reserves** are proved reserves that are expected to be recovered from known accumulations when a significant expenditure is required to render them capable of production (for example, when compared to the cost of drilling a well).

(m) A **reservoir** is a porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(n) A **service well** is a well drilled, or completed, for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for combustion.

(o) A **stratigraphic test well** is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Ordinarily such wells are drilled without the intention of being completed for hydrocarbon production. They include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as "exploratory type" if not drilled in a proved property, or "development type" if drilled in a proved property. Development type stratigraphic wells are often referred to as evaluation wells.

RECOGNITION AND MEASUREMENT

New cost centres

5 When planned principal operations in a cost centre have not commenced, the cost centre is in the preproduction stage. When a cost centre is in the preproduction stage, the following apply:

(a) All costs (including exploratory dry holes), less revenue, shall be capitalized.

(b) The resulting net capitalized costs shall be assessed each time financial statements are issued as to whether it is likely such net costs, in the aggregate, may be recovered in the future. If there are costs that are considered unlikely to be recovered, they shall be written off. In some cases the amount of likely loss may not be determinable or there may be uncertainty as to the likelihood of loss. In such cases, the disclosures required by MEASUREMENT UNCERTAINTY, Section 1508, shall be made. This includes a statement that recovery of costs of (amount) is uncertain and dependent upon achieving commercial production, or sale and (if applicable) additional financing.

6 When the cost centre is no longer in the preproduction stage, the guidance set out below applies.

Costs to be capitalized

7 All costs associated with property acquisition, exploration and development activities, including asset retirement costs (see ASSET RETIREMENT OBLIGATIONS, Section 3110), shall be capitalized within the appropriate cost centre. Any internal costs that are capitalized shall be limited to those costs that can be directly identified with acquisition, exploration and development activities undertaken by the enterprise for its own account, and shall not include any costs

related to production (lifting costs), general corporate overhead, or similar activities. Such capitalized costs may include:

(a) interest costs on unproved properties and major development projects, provided the related costs are not being depleted or depreciated; and

(b) that portion of overhead or general and administrative costs that can be directly related to, and is necessary to, the exploration and development activity. Allocations, particularly in smaller enterprises, may be required.

Costs excluded from costs subject to depletion and depreciation ("D & D")

Unproved properties

8 Costs of acquiring and evaluating unproved properties may be excluded from costs subject to D & D until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. Such costs are:

(a) acquisition costs of properties;

(b) G & G costs associated with properties already acquired;

(c) costs of carrying and retaining unproved properties;

(d) costs of drilling and equipping unproved exploratory wells and exploratory-type stratigraphic test wells;

(e) asset retirement costs for unproved properties;

(f) interest capitalized on unproved properties; and

(g) directly related overhead, including certain general and administrative costs.

9 On completion of drilling, an exploratory well or exploratory-type stratigraphic test well may be determined to have found oil and gas reserves, but classification of those reserves as proved depends on whether a major capital expenditure can be justified that, in turn, depends on whether additional exploratory wells find a sufficient quantity of additional reserves. This situation arises principally with exploratory wells or exploratory-type stratigraphic test wells drilled in a remote area or offshore for which production would require construction of major processing or development facilities and a delivery system. In these cases, the exploratory well or exploratory-type stratigraphic test well continues to be carried as part of the unproved properties pending determination of whether proved reserves have been found, but only as long as both of the following conditions are met:

(a) the well has found a sufficient quantity of reserves to justify its completion as a producing well if, in the case of an exploratory well, the required capital expenditure is made, or, in the case of a stratigraphic test well, had it not been a stratigraphic test well; and

(b) drilling of the additional wells is under way or firmly planned for the near future.

10 For all other exploratory wells that find oil and gas reserves, and in the absence of a determination as to whether the reserves that have been found can be classified as proved, the costs of drilling such exploratory wells shall not be excluded from costs subject to D & D for more than one year following completion of drilling.

11 The following costs shall not be excluded from costs subject to D & D:

(a) costs of proved properties;

(b) any costs that have been subject to D & D;

(c) costs of a well if the well is determined not to have found reserves (dry holes), whether or not the drilling of such a well earned acreage;

(d) exploration costs not related to unproved properties already acquired; and

(e) impaired costs for unproved properties and major development projects excluded from costs subject to D & D (see paragraph 17).

12 The transfer of costs to costs subject to D & D shall occur on a regular basis as proved reserves are added or as impairment occurs.

13 Except for major development projects, once proved reserves are established, there is no justification under the full cost concept for continued exclusion of costs from costs subject to D & D even if other factors prevent immediate production or marketing.

Major development projects

14 A portion of the costs of certain major development projects (for example, the installation of an offshore drilling platform from which development wells are to be drilled, the installation of improved recovery programs and similar major projects), may be excluded from costs subject to D & D until the earliest of:

(a) a portion of the property becomes capable of production;

(b) development activity ceases; or

(c) impairment occurs.

15 The amounts that may be excluded are applicable portions of:

(a) costs relating to the major development project that have not previously been included in costs subject to D & D; and

(b) the estimated future expenditures associated with the development project.

16 The excluded portion of any common costs associated with the development project shall be based, as is most appropriate in the circumstances, on a comparison of either:

(a) existing proved developed reserves to total proved developed reserves expected to be established upon completion of the project; or

(b) the number of wells drilled to the total number of wells expected to be drilled.

Impairment of unproved properties and major development projects excluded from costs subject to D & D

17 Until it is determined whether proved reserves are attributable, unproved properties and major development projects excluded from costs subject to D & D shall be assessed to ascertain whether impairment has occurred. If the results of the assessment indicate impairment, the amount of the impairment shall be included in the costs subject to D & D.

18 A property would likely be impaired if, for example, a dry hole has been drilled on it and the enterprise has no firm plans to continue drilling. Also, the likelihood of partial or total impairment of a property increases as the expiration of the lease term approaches if drilling activity has not commenced on the property or on nearby properties, or there is insufficient time remaining in the lease term to conduct necessary studies and/or exploratory drilling. Further impairment concerns arise from negative geological and geophysical and relevant drilling data and questions about the enterprise's financial ability to continue to hold the property.

19 All exploratory dry holes are evaluated and are considered impaired, at least to the extent of the cost of the dry hole.

20 Impairment of individual, unproved properties for which costs are relatively significant (normally 10 percent or more of a cost centre) shall be assessed on a property-by-property basis.

21 When an enterprise has a relatively large number of unproved properties for which acquisition costs are not individually significant, it may not be practical to assess impairment on a property-by-property basis, in which case such properties may be grouped for purposes of assessing impairment. Impairment may be estimated by applying factors based on historical experience and other data such as primary lease terms of the properties and average holding periods of unproved properties.

Disposals of properties

22 The accounting for long-lived assets to be disposed of other than by sale specified in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, shall be applied to oil and gas properties, including those abandoned, exchanged for other properties or distributed to owners in a spin-off, as follows:

(a) When an unproved property is abandoned, its carrying amount less any prior impairment shall be included in costs subject to D & D. However, if this results in a change of 20 percent or more in the D & D rate, a loss shall be recognized.

(b) When a proved property is exchanged for another property, no gain or loss shall be recognized.

(c) When an unproved property is exchanged for another property, the initial carrying amount of the property received is equal to the carrying amount of the property given up. The property received shall be tested for impairment at the date of the exchange.

(d) When a proved property is distributed to owners in a spin-off, the net book value of the property shall be determined in accordance with the methodology in paragraph 25. The net book value so determined shall be credited to capitalized costs and no gain or loss is recognized. However, if the fair value of the property is less than the net book value, an impairment loss shall be recognized at the time of disposal.

(e) When an unproved property is distributed to owners in a spin off, it shall be tested for impairment at the time of disposal and an impairment loss recognized if the property is impaired.

23 The accounting for long-lived assets to be disposed of by sale specified in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, shall be applied to the following sales of oil and gas properties:

(a) sales where crediting the proceeds to costs results in a change of 20 percent or more in the D & D rate;

(b) sales of properties that were classified as held for sale at their acquisition date (in accordance with Section 3475); and

(c) unproved properties for which the costs are excluded from costs subject to D & D (see paragraph 27).

Under full cost accounting, the net carrying amount of properties other than those in (a)-(c) above is not known. Therefore, even though other properties may meet the criteria in Section 3475 to be classified as held for sale, those properties are not classified as held for sale.

24 When a gain or loss is to be recognized on properties with proved reserves that have been classified as held for sale, the total net book value of capitalized costs, within the cost centre, subject to D & D shall be allocated between the properties sold and properties retained.

25 Such allocation shall be based on the ratio of future net revenue (discounted at 10 percent) of the property sold to the future net revenue (discounted at 10 percent) of all proved properties within the applicable cost centre before the sale. Future net revenue is the estimated net amount to be received with respect to development and production of reserves. This net amount is computed by deducting, from estimated future revenues, estimated amounts of future royalty

obligations, costs related to the development and production of reserves, and abandonment and reclamation costs. Corporate general and administrative expenses and financing costs are not deducted. The discount is designed to arrive at a readily determinable approximation of relative values.

26 Proceeds from the sale of proved properties not classified as held for sale shall be credited to capitalized costs subject to D & D (for the applicable cost centre) with no gain or loss recognized.

27 A gain or loss on an unproved property classified as held for sale in accordance with paragraph 23 shall only be recognized when crediting the proceeds to the capitalized costs subject to D & D for the appropriate cost centre results in a change of 20 percent or more in the D & D rate. Otherwise, the difference between the proceeds and the carrying amount shall be added to, or subtracted from, the capitalized costs subject to D & D.

28 When a gain or loss is to be recognized on a sale of unproved properties, the total net book value of capitalized costs, within the cost centre, subject to D & D, including the cost of the properties sold, shall be allocated between the properties sold and properties retained. The allocation shall be based on the ratio of the net sale proceeds to the future net revenue (discounted at 10 percent) of all proved properties plus the net sale proceeds of the property sold.

Depletion and depreciation

29 Capitalized costs within a cost centre shall be depleted and depreciated on the unit-of-production basis.

30 Costs to be depleted and depreciated include:

(a) all capitalized costs, less accumulated depletion and depreciation (other than the costs of unproved properties and major development projects excluded from costs subject to D & D); and

(b) the estimated future costs (based on current costs) to be incurred in developing proved reserves. These costs include asset retirement costs that are estimated to be incurred in producing the proved reserves but have not yet been recorded and, therefore, are not captured by (a) above.

31 For D & D purposes, both the estimated future development costs and estimated proved reserves shall reflect the costs and reserves related to the development method most likely to be adopted by the enterprise.

32 D & D shall be computed by cost centre on the basis of the enterprise's units of proved reserves (except proved reserves related to major development projects, the costs of which are excluded from costs subject to D & D) either before or after deducting royalties. Various products included in proved reserves shall be expressed in a common unit of measure on the basis of either their approximate relative energy content or units of revenue (based on current prices).

33 In some cases, it may be more appropriate to depreciate natural gas processing plants and similar tangible assets by a method other than the unit-of-production method (for example, based on their estimated economic or physical useful lives).

34 D & D shall be calculated each time financial statements are issued (annually or quarterly); the annual D & D provision is equal to the sum of such interim periods. Retroactive adjustments are not made to reflect an annual calculation.

35 Estimates of proved reserves and development costs, in the absence of new reserve reports as at an interim period end, shall be based on the reports at the beginning of the period and adjusted for material changes during the period.

36 The calculation of the provision for D & D may be summarized as follows:

$$\frac{\text{Production}}{\text{Reserves at beginning of period adjusted for major changes in estimates during the period}} \times \text{Net book value at end of period plus estimated future costs to be incurred in developing proved undeveloped reserves, net of estimated salvage values}$$

37 Provisions for D & D shall be determined on a consolidated basis for each cost centre and, when an investee is accounted for by the equity method, net income of the investor shall be the same as the consolidated net income would have been if the financial statements of the investee had been consolidated. Non-controlling interests shall be determined at the subsidiary level and, once determined, shall not be changed even though D & D could be considered to have been changed as a result of provisions calculated on a consolidated basis.

Cost centre impairment (ceiling test)

38 IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, provides the general impairment provisions that are applicable to all long-lived assets, other than those explicitly excluded from its scope. Oil and gas assets accounted for using the full cost method were excluded from that Section because detailed guidance directly applicable to those assets is provided in this Guideline. The cost centre impairment test (ceiling test) is a specific application of the impairment provisions of Section 3063.

Frequency

39 The cost centre impairment test is an important estimate to be made in preparing financial statements of an enterprise involved in oil and gas exploration, development and production activities. Under full cost accounting many costs incurred will be capitalized even though they have not resulted in an increase in the future revenue generating capacity of the enterprise. Accordingly, cost centre impairment tests shall be conducted as at each annual balance sheet date.

Recognition of impairment

40 An impairment loss shall be recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Unproved properties and major development projects are included in this recoverability test in accordance with paragraphs 46-48.

Prices and costs used

41 Estimates of future oil and gas prices, and of costs, shall be reasonable in relation to the assumptions used by the enterprise in developing other information, such as internal budgets and projections, or information communicated to others.

42 Prices used in estimating future cash flows shall be based on the best information available to the enterprise. For cash flows from the sale and purchase of oil and gas, this is normally consistent with quoted benchmark prices (for example, Edmonton Par, WTI) in the futures market. Price forecasts consistent with reputable industry forecasts may also be useful, especially for periods for which no liquid futures market prices are available. The rationale for any significant (year over year) change in forecast prices used beyond the period for which futures market prices are available shall be supportable and documented. Benchmark prices are adjusted as appropriate for quality differences, transportation, foreign exchange and other relevant factors in determining the price that is received by the enterprise.

43 An enterprise may have fixed the price at which it will sell some or all of its oil or gas production for a certain period of time in the future. This may be through contractual arrangements with a purchaser or through a hedge transaction (see FINANCIAL INSTRUMENTS, Section 3856). In other cases, governments or regulatory bodies may mandate prices that are different from market prices. These prices shall be applied to the applicable volumes in estimating future cash flows.

44 Estimates of future cash flows shall include only the cash inflows and outflows that are directly associated with, and that are expected to arise as a direct result of, the development, production and sale of the cost centre reserves. Cash flows related to financing are not included.

Quantities used

45 Only proved reserves shall be included in estimating future cash flows for the purpose of determining whether a cost centre impairment shall be recognized.

Unproved properties

46 Enterprises exploring for oil and gas normally have capitalized costs relating to acquisition of unproved properties. For example, the costs may relate to the assembly of land positions held for future exploration or development or to properties on which some exploration activity has taken or is taking place. Such costs, if they have been excluded from costs subject to D & D, shall have been subjected to a separate test for impairment.

47 Unproved properties shall be included in the cost centre impairment test for recoverability as follows:

(a) the carrying amount of the cost centre includes all unproved properties; and

(b) the cost (less any impairment) of unproved properties that have been excluded from D & D and, therefore, have been subjected to a separate test for impairment in accordance with paragraphs 17-21, is added to the estimated future cash flow for the cost centre.

Major development projects

48 Certain costs may have been incurred in connection with major development projects expected to entail significant additional costs to ascertain the quantities of expected additional proved reserves attributable to the properties under development (for example, the installation of an offshore drilling platform from which development wells are to be drilled, the installation of improved recovery programs, and similar major projects undertaken in the expectation of significant additions to proved reserves). For purposes of the recoverability test, the costs of such projects shall be treated in a similar manner to those of unproved properties. The total carrying cost of the project is included in the carrying amount of the cost centre. The amount of cost that has been excluded from the D & D calculation is added to the estimated future cash flow for the cost centre.

Measurement of impairment

49 A cost centre impairment loss shall be measured as the amount by which the carrying amount of assets capitalized in a cost centre exceeds the sum of:

(a) the fair value of proved and probable reserves; and

(b) the costs (less any impairment) of unproved properties that have been subject to a separate test for impairment and contain no probable reserves. Normally, unproved properties do not contain reserves classified as probable. The cost of any unproved properties containing probable reserves is not added to the fair value of the cost centre, since the probable reserves are taken into account in estimating the fair value of proved and probable reserves in (a) above.

50 The Appendix to IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, provides guidance on the application of fair value to the measurement of impairment.

51 A present value technique will normally be the best available technique to estimate the fair value of a cost centre of an oil and gas enterprise. Since the fair value of each oil and gas property will depend on factors unique to that property, such

as the quantity and quality of reserves, geology and location, it is extremely rare that the price at which one property sold is a reasonable estimate of the fair value of another property, and even rarer that a cost centre containing several properties could have its fair value estimated by comparison to other properties or groups of properties. However, comparisons to recent market transactions may, in some cases, serve as a test of the reasonableness of a present value estimate of fair value.

52 Estimates of future cash flows incorporate assumptions that marketplace participants would use in their estimates of fair value whenever that information is available. Otherwise, an enterprise may use its own assumptions, as long as there are no contrary data indicating that marketplace participants would use different assumptions. If such data exists, the enterprise must adjust its assumptions to incorporate that market information.

53 Marketplace participants would incorporate (some portion of) probable reserves in their estimates of the fair value of a cost centre. Both proved and probable reserves shall be included in the reserves used to develop the present value of estimated future cash flows. Other categories of reserves, such as possible reserves, are excluded.

54 The volume of proved and probable reserves that will be produced is subject to several types of uncertainty, including geological and political risk. The Appendix to IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, discusses two present value techniques — the traditional and the expected present value approaches. The inability to identify comparable groupings of reserves (and a discount rate inherent in their fair value) together with the uncertainties in estimating future cash flows from oil and gas reserves makes the expected present value approach the appropriate technique for oil and gas enterprises.

55 The expected present value technique incorporates risk and uncertainty (such as reserve volumes and legal and regulatory changes) into the cash flows. These cash flows are then discounted using a risk-free interest rate. Guidance on the expected present value technique is provided in the Appendix to IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

Consolidation / equity accounting

56 When an enterprise has a subsidiary with a non-controlling interest, the impairment test for a cost centre shall include the carrying amount of the enterprise's interest in the subsidiary's properties and exclude the carrying amount of the non-controlling interest. The reserves used in estimating future cash flows and fair value shall be the total reserves for the subsidiary reduced by the non-controlling interest. Similar considerations apply when the enterprise has investments accounted for using the equity method.

PRESENTATION

Discontinued operations

57 A disposal of a subset of properties within a cost centre shall not be presented as a discontinued operation as it will not meet the definition of a component (see DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475). A disposal of an entire cost centre meets the definition of a component and shall be presented as a discontinued operation in accordance with Section 3475.

Balance sheet presentation

58 Enterprises following the full cost method of accounting shall report properties classified as held for sale (see paragraph 23) separately in the balance sheet.

DISCLOSURE

59 Enterprises following the full cost method of accounting shall disclose:

- (a) interest and general and administrative costs capitalized during the period;
- (b) costs at the balance sheet date excluded from costs subject to D & D, together with comparative amounts;
- (c) the method used in calculating D & D (i.e., whether gross or net (before or after royalties) numbers were used and how gas and oil were converted to a common unit of measure);
- (d) the disclosures required by IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, and by DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475;
- (e) when planned principal operations in a new cost centre have not commenced (see paragraph 5), the following
  - (i) the fact that activities in the cost centre are considered to be in the preproduction stage;
  - (ii) the fact that all costs, net of revenues, have been capitalized;
  - (iii) the major uncertainties affecting recovery of costs; and
  - (iv) for each cost centre, net costs to date with respect to unproved properties, proved properties and other costs.

  In addition to the above, the disclosure requirements of MEASUREMENT UNCERTAINTY, Section 1508, shall be considered. In particular, impairment tests may be subject to material measurement uncertainty.

EFFECTIVE DATE

60 This Guideline applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.