

**A.S.C. POLICY 6.2**  
**APPLICATION OF CEILING TEST BY OIL AND GAS**  
**REPORTING ISSUERS USING THE FULL COST METHOD OF ACCOUNTING**

1. INTRODUCTION

- 1.1 A wide variety of accounting methods is being used by reporting issuers in the oil and gas industry to assess the recoverability of the net book value of petroleum and natural gas properties for the purpose of calculating the charge to operations for amortization of those properties. The Canadian Institute of Chartered Accountants (the "CICA") has issued a guideline on the full cost method of accounting which establishes a uniform approach in the application of the ceiling test.
- 1.2 This policy requires reporting issuers in the oil and gas industry, that do not adopt the uniform approach set forth in the guideline, to make certain additional disclosure in the notes to their annual financial statements filed with the Alberta Securities Commission (the "Commission").
- 1.3 This policy does not deal with:
  - 1.3.1 operations involving the extraction of hydrocarbons from shale, tar sands or coal;
  - 1.3.2 operations involving the transporting, refining and marketing of oil and gas; and
  - 1.3.3 financial statements that, pursuant to subsections 6(2) and (3) of the regulations made under the Alberta Securities Act, are prepared in accordance with accounting principles generally accepted in a foreign jurisdiction.

2. DEFINITIONS

- 2.1 In the policy, the following definitions apply:
  - 2.1.1 "Ceiling test" means the limitation on the aggregate costs of oil and gas activities that may be carried forward for amortization against revenues of future periods.
  - 2.1.2 "Full cost method" means that general approach to accounting for oil and gas activities whereby all costs incurred in acquiring, exploring, developing and producing properties within a relatively large cost centre (such as a country) are capitalized when incurred and are amortized as oil and gas reserves in the cost centre are produced.

2.1.3 "Guideline" means the accounting guideline dated September, 1986 entitled "Full Cost Accounting in the Oil and Gas Industry" contained in the Handbook issued by the CICA.

3. COMPLIANCE WITH GUIDELINE

3.1 Reporting issuers that use the full cost method are strongly encouraged to comply with all aspects of the Guideline.

4. SUPPLEMENTARY DISCLOSURE REQUIREMENTS

4.1 Reporting issuers that use the full cost method and that do not comply with those portions of the Guideline that relate to the ceiling test are required to make the following disclosure in annual financial statements filed with the Commission:

4.1.1 the basic criteria used in the application of the ceiling test;

4.1.2 the fact that the ceiling test as applied differs in some material respects from the Guideline; and

4.1.3 the nature and extent (including amounts) of adjustments, if any, which would have been necessary had the Guideline been applied as it relates to the ceiling test.

5. TRANSITIONAL PROVISIONS

Any change in accounting methods to comply with this policy may be applied either prospectively or retroactively.

6. DATE OF APPLICATION

This policy applies to fiscal periods ending on or after December 31, 1986.

Effective date: March 15, 1987