CAPP
CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

sepac
Small Explorers and Producers
Association of Canada

November 24, 2008

International Accounting Standards Board
30 Cannon Street
London, United Kingdom EC4M 6XH

Dear Sirs:

Re: Comment on Exposure Draft for IFRS 1 Amendment

The Canadian Association of Petroleum Producers ("CAPP") and the Small Explorers & Producers Association of Canada ("SEPAC") comprise some 550 companies that explore for, develop and produce natural gas, natural gas liquids, crude oil, oil sands, and elemental sulphur throughout Canada. Virtually all of Canada's natural gas and crude oil production results from the efforts of member companies of our associations. Billions of dollars, from both Canadian and international sources, are raised each year to fund the capital investment needed to find and develop new reserves of oil and gas in Canada. Members and associate members are an important part of a $100-billion-a-year national industry that affects the livelihoods of more than half a million Canadians.

Virtually all of Canada's independent oil and gas exploration and production companies use the full cost method of accounting for their fixed asset accounts. Exploration and development costs, including production equipment and facilities, and acquisition costs allocated to oil and gas exploration and development activities under the purchase method for business combinations, have all been recorded in country-by-country cost centres, or pools. Subsequent depletion and depreciation, including impairment provisions, are all determined and then recorded on this pool basis. Proceeds on disposition of properties are credited to the specific country pool unless the resulting disposition would alter the depletion rate for that country pool by more than 20%, in which case a gain or loss is recognized. Once costs are added to each country pool, they lose their identity and are no longer identified with specific assets for either accounting or income tax purposes.

In preparation of Canada's transition to International Financial Reporting Standards ("IFRS") in 2011, the Canadian oil and gas industry created a task group in 2007 comprised of professionally qualified accountants in industry to focus on identifying transition accounting issues and, with the assistance of the public accounting firms, have been developing resolutions to each of the issues faced by our industry in the conversion and implementation of IFRS related specifically to the fixed asset accounts. Conversion to IFRS, as currently published, would cause the Canadian oil and gas industry to enter into a very costly and, in many cases, almost impossible process of recreating detailed historic records as at the transition date due to unavailable and/or potentially unverifiable documentation of past activities together with the increased need to use more subjective estimates. As investors, bankers and other creditors already rely heavily on independently determined oil and natural gas reserve reports, including related discounted and undiscounted values, a costly conversion process to recreate the historic exploration and evaluation costs and property, plant and equipment accounts would have little or no economic benefit to stakeholders.

As outlined in our submission of January 30, 2008 to Mr. Paul Cherry, Chair of the Accounting Standards Board at the Canadian Institute of Chartered Accountants and to Ms. Liz Hickey, Director of Technical Activities at the International Accounting Standards Board, CAPP and SEPAC requested that the IASB consider amending IFRS 1 to allow the historic net book value of the fixed assets accounts to be allocated at the IFRS transition date between exploration and evaluation assets and property, plant and equipment, subject to capitalization limits imposed by impairment testing. This proposal, prepared by the Canadian oil and gas industry IFRS task group, was the result of analysis, comment and input by a broad cross-section of the Canadian oil and gas industry and individuals from public accounting firms.

Our industry associations strongly endorse the exemption for full cost oil and gas companies as specifically outlined in the September 25, 2008 IASB Exposure Draft titled "Additional Exemptions for First-time Adopters – Proposed amendments to IFRS 1". Extensive involvement of and consultation with member companies indicates total unanimity with this position. Attached are our detailed responses to the questions posed in the Exposure Draft.

Should further background information or discussion be required, please do not hesitate to contact us.

Yours truly,

James K. Wilson, CA
Chair, IFRS Task Group
Canadian Association of Petroleum Producers

Jim Screaton, CA
Chairman, Small Explorers and
Producers Association of Canada

Attachment

Q1 – Deemed cost for oil and gas assets

Do you agree with the proposed deemed cost options for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?

We agree with and strongly endorse the proposed deemed cost option as all member companies involved with our work groups and with which we have consulted are unanimous in supporting this position. As outlined previously in the covering letter, virtually all of Canada's independent oil and gas exploration and production companies use the full cost method of accounting for their fixed asset accounts. All capitalized costs have all been recorded in country-by-country cost centres, or pools. Once costs are added to each country pool, they lose their identity and are no longer identified with specific assets for either accounting or income tax purposes.

Conversion to IFRS, as currently published, would cause the Canadian oil and gas industry to enter into a very costly and, in many cases, almost impossible process of recreating detailed historic records as at the transition date due to unavailable and/or potentially unverifiable documentation of past activities together with the increased need to use more subjective estimates. As investors, bankers and other creditors already rely heavily on independently determined oil and natural gas reserve reports, including related discounted and undiscounted values, a costly conversion process to recreate the historic exploration and evaluation costs and property, plant and equipment accounts would have little or no economic benefit to stakeholders.

Q2 – Oil and gas assets – disclosure

Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

We agree with the proposed disclosure requirements relating to the deemed cost options for oil and gas assets. Disclosure of the election to use the exemption outlined in the exposure draft, and the basis of carrying value allocations to the new categories of fixed asset accounts provides stakeholders with the information to understand the effects of the transition from the previous GAAP to IFRS.

Q3 – Deemed cost for operations subject to rate regulation

Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

No comment

Q4 – Leases

Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

No comment

Q5 – Assessments under previous GAAP before the date of transition to IFRSs

Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

No comment