

# FAIRMOUNT Energy Inc.

January 5, 2009

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

Dear Sirs:

**Re: Comment on Exposure Draft for IFRS 1 Amendment**

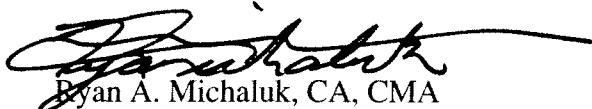
As with virtually all of Canada's independent oil and gas exploration and production companies, Fairmount Energy Inc. uses the full cost method of accounting for fixed asset accounts. Exploration and development costs, including production equipment and facilities, and acquisition costs allocated to 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. 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.

As outlined in the Canadian joint industry associations 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, it was 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.

**Our company strongly endorses 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".** Attached are our detailed responses to the questions posed in the Exposure Draft.

Yours truly,



Ryan A. Michaluk, CA, CMA

Vice President Finance and Chief Financial Officer

*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.

We would note that the oil and gas industry in Canada, and North America, is in many ways distinct in nature from that of other parts of the world. Fairmount, while a publicly traded company listed on the TSX Venture Exchange, has a market capitalization of only \$CAD 8,000,000 and has invested in approximately 90 oil and natural gas wells in the past five years which, based on preliminary internal analysis would likely be aggregated into five or six cash generating units under IFRS. Our daily production is currently less than 500 boe/day. Our company is not unique amongst small public and private oil and gas exploration and production companies operating in the western Canadian sedimentary basin. From a pragmatic perspective, the cost to retroactively account for our activities in accordance with IFRS in the absence of the proposed amendment would far exceed any benefit.

## **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