Accounting Standards for Business Enterprises No. 27 - Petroleum and Natural Gas Extraction

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Accounting Standards for Business Enterprises - Basic Standards* to regulate the accounting treatment and information disclosure for petroleum and natural gas (hereinafter referred to as "oil and gas") extraction activities.

Article 2

Oil and gas extraction activities include the acquisition of mineral rights, as well as the exploration, development and production phases of oil and gas.

Article 3

The accounting treatment for oil and gas storage, gathering, processing and sales activities outside of extraction activities shall be governed by other relevant accounting standards.

Chapter 2: Accounting Treatment for Mineral Rights

Article 4

Mineral rights refer to the rights obtained by an enterprise to explore, develop and produce oil and gas within a mining area.

Mineral rights are classified as proved property rights and unproved property rights. Proved properties are those where proved economically recoverable reserves have been discovered; unproved properties are those where no proved economically recoverable reserves have been discovered.

Proved economically recoverable reserves refer to the estimated quantities of oil and gas that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions.

Article 5

Costs incurred to acquire mineral rights shall be capitalized when incurred. Mineral rights obtained by an enterprise shall be initially measured at acquisition cost:

1. The cost of mineral rights acquired through application includes exploration license fees, mining license fees, land or sea use rights expenditures, intermediary fees and other directly attributable acquisition costs.
2. The cost of mineral rights acquired through purchase includes the purchase price, intermediary fees and other directly attributable acquisition costs.

Exploration license fees, mining license fees and rental expenses incurred to maintain mineral rights after acquisition shall be recognized in profit or loss for the period.

Article 6

Enterprises shall calculate depletion of proved mineral rights using either the units-of-production method or the straight-line method. When using the units-of-production method, depletion may be calculated for individual properties or for groups of properties with similar geological characteristics or reservoir conditions. The calculation formula is as follows:

Depletion of proved mineral rights = Carrying amount of proved mineral rights × Depletion rate

Depletion rate = Current period production / (Proved economically recoverable reserves at period end + Current period production)

Article 7

Enterprises shall recognize impairment losses on mineral rights under the following circumstances:

1. Impairment of proved mineral rights shall be accounted for in accordance with *ASBE No. 8 - Asset Impairment*.

2. Unproved mineral rights shall be tested for impairment at least annually. For individually significant unproved properties, impairment testing shall be performed at the individual property level. For individually insignificant unproved properties with similar geological characteristics to adjacent properties, impairment testing may be performed at the group level.

When the fair value of unproved mineral rights is lower than their carrying amount, the difference shall be recognized as an impairment loss in profit or loss. Once recognized, impairment losses on unproved mineral rights shall not be reversed.

(Continued...)

Release Date: March 9, 2006