

**Accounting Standards for Enterprises No. 27 - Exploitation of Petroleum and Natural Gas****Cai Kuai [2006] No. 3****Chapter I General Provisions**

Article 1 In order to regulate the accounting treatments for the exploitation activity of petroleum and natural gas (hereinafter referred to as oil and gas) and the disclosure of relevant information, these Standards are formulated in accordance with Accounting Standards for Enterprises - Basic Standards.

Article 2 The exploitation activity of oil and gas includes the stages of obtainment of rights and interests of mining areas, as well as exploration, development and production of oil and gas.

Article 3 Except for the exploitation activity of oil and gas, the accounting treatments for the storage, centralized transport, processing, distribution of oil and gas shall be governed by other relevant accounting standards.

**Chapter II Accounting Treatments of Rights and Interests of Mining Areas**

Article 4 The rights and interests of mining areas refers to the rights obtained by enterprises to explore, develop and produce oil and gas in mining areas.

The rights and interests of mining areas shall be classified into the rights and interests of proved and unproved mining areas. A proved mining area refers to a mining area in which an economically exploitable reserve has been discovered and proved after exploration. An unproved mining area refers to a mining area in which no economically exploitable reserve has been discovered and proved yet.

The term "economically exploitable reserve is proved" refers to the amount of oil and gas that can be reasonably determined and be exploited from a known oil and gas reserve under the current technological and economic conditions in the light of the geological and engineering analyses.

Article 5 The costs for obtaining the rights and interests of a mining area shall be capitalized when they are incurred. The rights and interests of a mining area obtained by an enterprise shall be measured initially according to the costs of obtainment:

(1) The costs for the obtainment of the rights and interests of a mining area shall include the use fee of the exploration right, the use fee of the mining right, the disbursements for the use right of land or sea area, commissions, and other disbursements directly attributable to applying for obtainment of the rights and interests of the mining area.

(2) The costs for the obtainment of the rights and interests of a mining area by way of purchase shall include the purchase price, commissions, and other purchasing disbursements directly attributable to the obtainment of the rights and interests of the mining area.

After the obtainment of the rights and interests of a mining area, the use fee of the exploration right, the use fee of mining right, rent and other disbursements for maintaining the rights and interests of the mining area shall be recorded into the profits and losses of the current period.

Article 6 An enterprise shall adopt the output method or the average method of year limit to calculate the depletion of the rights and interest of the proved mining areas.

If it adopts the output method to calculate the depletion, the depletion amount shall be calculated

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

in the light of each single mining area, or in the light of a group of adjacent mining areas with identical or similar geological structure features or deposit layer conditions. The calculation formula shall be as follows:

The depletion amount of the rights and interests of the proved mining areas = the book value of the proved mining areas × the depletion rate of the rights and interests of the proved mining areas

The depletion rate of the rights and interests of the proved mining areas = the output of the proved mining areas in the current period / (the proved economically exploitable reserve at the end of the period of the proved mining areas + the output of the proved mining areas of the current period)

Article 7 For the impairment of the rights and interests of a mining area, an enterprise shall recognize the impairment losses in accordance with the following different circumstances, respectively:

(1) It shall treat the impairment of rights and interests of the proved mining areas in the light of the Accounting Standard for Enterprises No. 8 - Asset Impairment.

(2) The rights and interests of the unproved mining areas shall be tested on impairment at least once a year.

If the amount of costs incurred by the obtainment of a single mining area is relatively huge, the tests on impairment shall be performed on the basis of a single mining area and the amount of impairment of the rights and interests of the unproved mining area shall be confirmed.

If the amount of costs incurred by the obtainment of a single mining area is relatively small and if its geological structure features or deposit layer conditions are the same as or similar to those of other adjacent mining areas, a test on impairment may be performed on the basis of a group of mining areas consisting of several adjacent mining areas with identical or similar geological structure features or deposit layer conditions.

If the fair value of the rights and interests of the unproved mining areas is lower than the book value thereof, the difference between them shall be considered as an impairment loss and shall be recorded in the profits and losses of the current period. Once an impairment loss on the rights and interests of the unproved mining areas has been recognized, it shall not be reversed.

Article 8 Where an enterprise transfers the rights and interests of a mining area, it shall be subject to the provisions as follows:

(1) If it transfers all the rights and interests of a mining area, the difference between the transfer income and the book value of the rights and interests of the mining area shall be recorded in the profits and losses of the current period.

If it transfers parts of the rights and interests of the mining area, in the light of the proportion between the fair value of the transferred rights and interests and the fair value of the retained rights and interests, it shall calculate and determine the book value of the transferred portion of rights and interests of the mining area, and the difference between the transfer income and the book value of the transferred rights and interests of the mining area shall be recorded in the profits and losses of the current period.

(2) If it transfers all the rights and interests of an unproved mining area, for which it calculates the impairment separately, the difference between the transfer income and the book value of the rights

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

and interests of the unproved mining area shall be recorded in the profits and losses of the current period.

If it transfers parts of the rights and interests of an unproved mining area, for which it calculates the impairment separately and if the transfer income is more than the book value of the rights and interests of the mining area, the difference between them shall be recorded in the profits and losses of the current period.

If the transfer income is less than the book value of the rights and interests of the mining area, the transfer income shall offset against the book value of the rights and interests of the mining area and any profits and losses shall not be recognized.

(3) If it transfers the rights and interests of any unproved mining areas, for which it calculates the impairment on the basis of a group of mining areas, and if the transfer income is more than the original book value of the rights and interests of the mining areas, the difference between them shall be recorded in the profits and losses of the current period;

if the transfer income is less than the original book value of the rights and interests of the mining areas, the transfer income shall offset against the original book value of the rights and interests of the mining areas, any profits and losses shall not be recognized.

When it transfers the residual rights and interests of the final unproved mining area among the group of the mining areas, the difference between the transfer income and the book value of the unproved mining area shall be recorded in the profits and incomes of the current period.

Article 9 Where an unproved mining area (portfolio) is changed into a proved mining area (or groups of mining areas) because an economically exploitable reserve is discovered and proved in such an unproved mining area (portfolio), it shall be shifted into the rights and interests of proved mining areas according to its book value.

Article 10 Where an enterprise eventually abandons an unproved mining area due to its failure to discover and prove any economically exploitable reserve therein, its book value at the time of abandonment shall be written off the rights and interests of the unproved mining area, and be recorded in the profits and losses of the current period.

The abandonment costs, which are incurred due to the unfinished obligatory workload or other factors shall be recorded in the profits and losses of the current period.

### Chapter III Accounting Treatments of Oil and Gas Exploration

Article 11 The expression "oil and gas exploration" refers to the geological investigations, geophysical prospecting, drilling activities and other relevant activities carried out for the purpose of identifying the exploration region or exploring the oil and gas reserve.

Article 12 The disbursements for oil and gas exploration shall include the drilling exploration disbursements and the non-drilling exploration disbursements.

The drilling exploration disbursements shall mainly include the disbursements incurred by the exploratory drilling in the exploration region, the drilling for detailed prospecting, the appraisal well, the data well as well as other activities.

The non-drilling exploration disbursements shall mainly include the disbursements for geological investigation, geophysical exploration as well as other activities.

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

Article 13 With a view to the drilling exploration disbursements, after a well is completed, if it is sure that an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling this well shall be carried forward as cost of the well and relevant facilities.

If it is sure that no economically exploitable reserve is discovered and proved in the well, the result of the disbursements for drilling this well less the net salvage value shall be recorded in the profits and losses of the current period.

If it is sure that an economically exploitable reserve is discovered and proved in a section of the well, among the portion of drilling exploration disbursements for the effective section of the well where an economically exploitable reserve is discovered and proved shall be carried forward as the cost of the well and relevant facilities. The accumulative drilling exploration disbursements for the ineffective section of the well shall be changed into the profits and currents of the current period.

If it is not sure that whether or not an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling the well shall be temporarily capitalized within 1 year after it is completed.

Article 14 If one year has lapsed since the completion of the well, it is still impossible to make sure whether or not an economically exploitable reserve is discovered and proved in a well, if the following conditions are satisfied simultaneously, the capitalized disbursements for drilling the well shall continue to be temporarily capitalized, otherwise they shall be recorded in the profits and losses of the current period:

(1) A sufficient reserve has been discovered in the well, but in order to make sure whether or not it is an economically exploitable reserve, it is necessary to carry out further exploration activities in order to make sure whether or not it is an proved economically exploitable reserve;

(2) Further exploration activities are being implemented or are about to be implemented under a specific plan.

Where a new economically exploitable reserve is discovered and proved in a well for which the drilling exploration disbursements have been expensed, no adjustment may be made to the expensed drilling exploration disbursements and the disbursements for re-drilling exploration and for the completion of the well shall be capitalized.

Article 15 The non-drilling exploration disbursements shall be recorded in the profits and losses of the current period at the time of incurrence.

#### Chapter IV Accounting Treatments of Oil and Gas Development

Article 16 The term "oil development" refers to the activities such as the construction or renovation of wells and other relevant facilities in order to acquire the oil and gas of a proved mining area.

Article 17 The disbursements incurred during the oil and gas development activities shall be capitalized respectively in the light of their purposes and be recognized as the cost of well and relevant facilities formed by the oil and gas development.

The cost of well and relevant facilities formed by the oil and gas development mainly includes:

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

(1)The pre-drilling preparation disbursements, including the pre-phase research, project geological investigation, project design, determination of [ ] of the well, cleaning up the well site, building roads, as well as other activities;

(2)The disbursements for the purpose of purchasing equipment of the well and for the construction of the well. The equipment of the well shall include the casing pipes, oil pipes, oil pump equipment and well mouth devices, etc. The construction of the well shall include the drilling and completion of the well;

(3)The disbursements for the purpose of purchasing and constructing the systems for promoting the exploitation rate; and

(4)The disbursements for the purpose of purchasing and constructing the centralized transport facilities, separation processing facilities, measurement equipment, storage facilities, various off-shore platforms, seabed and land cables, etc. within the mining area.

Article 18In a proved mining area, the disbursements incurred during the process from the drilling to the current layer that has been proved shall be considered as the disbursements for oil and gas development.

The disbursements incurred due to the continuous drilling till the unproved layer in order to obtain the new proved economically exploitable reserve shall be considered as the drilling exploration disbursements, and be treated in the light of Articles 13 and 14 of these Standards.

#### Chapter V Accounting Treatments for the Oil and Gas Production

Article 19The expression "oil and gas production" refers to the activities such as extracting any oil and gas from the oil and gas deposit to the surface of the earth, gathering, transporting, processing, storing on the spot within the scope of the mining area, as well as the management of the mining area.

Article 20The cost of oil and gas production shall include the depletion of the rights and interests of the relevant mining area, the depletion of the wells and relevant facilities, the depreciation of the auxiliary equipment and facilities, as well as the operating expenses.

The term "operating expenses" include the direct and indirect expenses incurred during the period of the oil and gas production and the management of the mining area.

Article 21An enterprise shall compute the depletion of its wells and other relevant facilities by adopting the output method or the straight-line method.

The wells and relevant facilities shall include the exploration wells where the economically exploitable reserve is discovered and proved, wells formed in the exploitation activities, and other various facilities directly related to the exploitation activities.

If the output method is adopted for calculation of the depletion, the depletion amount shall be computed in the light of a single mining area or in the light of a group of adjacent mining areas with identical or similar geological structure features or deposit layer conditions. The calculation formula shall be given as follows:

The depletion amount of the wells and other relevant facilities of the mining areas = the book value of the wells and relevant facilities of the mining areas at the end of the period × the depletion rate of the wells and relevant facilities of the mining areas

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

The depletion rate of the wells and relevant facilities of the mining areas = the output of the proved mining areas in the current period / (the economically exploitable reserves at the end of the period which has been proved and have been exploited + the output of the mining areas in the current period)

The economically exploitable reserves at the end of the period which have been proved and have been exploited include the economically exploitable reserves which have been proved and have been put into full exploitation after the completion of the drilling of the net of development wells and the construction of the supporting facilities, and the increased exploitable reserves correspondingly after the facilities necessary for the technologies to promote the exploitation rate have been finished and these facilities have been put into operation.

Article 22 The earthquake equipment, construction equipment, vehicles, maintenance workshops, warehouses, supply stations, communication equipment, office facilities and other auxiliary equipment and facilities shall be treated in accordance with the Accounting Standard for Enterprises No. 4 - Fixed Assets.

Article 23 For an enterprise' obligation to do the discarded dispose for any mining area,, if this obligation satisfies the conditions for the recognition of the expected liabilities as prescribed in the Accounting Standards for Enterprises No. 13 - Contingencies, it shall recognize this obligation as an expected liability and shall increase the corresponding book value of the wells and relevant facilities.

If the conditions for the recognition of the expected liabilities are not satisfied, the disbursements for the disassembly, removal and site cleaning at the time of discard shall be recorded in the profits and losses of the current period.

The discard of a mining area refers to the termination of production of the last well of a mining area.

Article 24 The impairment of the wells and relevant facilities, auxiliary equipment and facilities shall be treated in the light of the Accounting Standard for Enterprises No. 8 - Impairment of Assets.

## Chapter VI Disclosure

Article 25 An enterprise shall disclose the information related to the oil and gas exploitation activities as follows in its notes:

- (1) The data of the beginning and the end of the year of the domestic and overseas oil and gas reserves that they possessed.
- (2) The total amount of all disbursements incurred in the current period in order to obtain the rights and interests of domestic and overseas mining areas, the oil and gas exploration as well as the oil and gas development.
- (3) The original book value of the rights and interests of the proved mining areas, wells and relevant facilities, the accumulative depletion amounts and the accumulative amounts of the impairment provisions as well as their calculation methods.

The original book value of the auxiliary equipment and facilities for the oil and gas exploitation activities, the accumulative depreciation amounts and the accumulative amounts of the impairment

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

provisions as well as their calculation methods.



The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

**China Business Engine**  
Tel +86 21 52289730  
Fax +86 21 5228-9730

**Website**  
China site: [www.cbize.com](http://www.cbize.com)  
Globe site: [www.cbize.net](http://www.cbize.net)