



IFRS – What Matters to You

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Agenda

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- ▶ More important items
 - ▶ E&P issuers, exploration and development expenditures
 - ▶ Business combination accounting
 - ▶ Trust units, debt or equity
 - ▶ Covenants
- ▶ Less important items
 - ▶ Hedging activities
 - ▶ E&P issuers, royalties & cost recoveries
 - ▶ More “parts”: maintenance, depreciation & impairment
 - ▶ Interest capitalization
 - ▶ Asset retirement obligations
 - ▶ Flow through share accounting
- ▶ Q & A

Key Message

You must get issuers to explain
to you how IFRS will affect their
numbers

Example 3Q 2009 IFRS Disclosure 1

The corporation is currently reviewing the IFRS requirements in order to develop a transition plan to convert its financial statements to IFRS and assess the impact of IFRS on the corporation's financial statements, the impact of which may be material. The corporation expects to be IFRS compliant by January 1, 2011.

Example 3Q 2009 IFRS Disclosure 2

The Trust has commenced the conversion project which will consist of the following phases: 1) initial diagnostic and planning, 2) impact analysis and evaluation, and 3) implementation and review. The Trust has completed the initial diagnostic which included identifying major differences between current Canadian GAAP and IFRS. The project plan has been established.

It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

The Trust currently anticipates that it will use the recently adopted amendment to IFRS 1 that allows the Trust to measure exploration and evaluation assets at the amount previously determined under Canadian GAAP. The amendment will also permit the Trust to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value previously determined under the Canadian GAAP and allocating values at the unit of account level based on the Trust's reserve volumes or reserve values as of the date of conversion. However, at this time, the impact on the Trust's financial position and results of operations from the changeover to IFRS is not reasonably determinable.

More important items - E&P issuers, exploration and development expenditures

Item	Earnings	EBITDA	Cash from operations	Total assets
Costs incurred before you get exploration rights are charged to expense	Y	Y	Y	Y
Exploration dry holes	Likely	Likely	Possibly	Y
Exchanges of properties, interests, farm ins and farm outs in development and production phase	Y	Likely	N	Y

More important items - Business Combinations

Item	Earnings	EBITDA	Cash from operations	Total assets
Transaction costs now an expense	Y	Y	N	Y
Minority interest is now equity on the balance sheet	N	N	N	Y
Minority interest no longer an expense, but a distribution	Y	N	Y	Y
Bump to 100% of fair values on a less than 100% acquisition	N	N	N	Y
Amortize greater fair values following a less than 100% acquisition	Y	N	N	Y
Negative goodwill = gain	Y	N	N	Y

Example - Purchase Equation Under New Business Combination Standards

- ▶ XYZ acquires 75% of ABC shares in ABC for \$5,000
- ▶ \$100 transaction costs
- ▶ Book value of ABC's net assets is nil
- ▶ Fair value of ABC's net assets is \$4,000 (established by valuator)
- ▶ The fair value of minority interest (MI) is \$1,200 (established by valuator)

Business Combinations and Non-controlling Interests

	CGAAP Today	IFRS ₁ -MI at portion of net assets	IFRS ₂ -MI at FV
Consideration	5,100	5,000	5,000
+			
Minority interest	0	1,000	1,200
-			
Net assets	3,000	4,000	4,000
=			
Goodwill	2,100	2,000	2,200

More important items - Trust Units, Debt Versus Equity

Item	Earnings	EBITDA	Cash from operations	Total assets
Debt versus equity	BIG	Possibly	N	N

... but ZERO equity on balance sheet!

More important items - Covenants

- ▶ Debt agreement defines GAAP
- ▶ Canadian GAAP continues to exist; it incorporates IFRS by reference
- ▶ Look at change of GAAP provisions in the agreement
- ▶ No doubt the calculation of some ratios will change
- ▶ Get issuer to explain to you what they have done

Less important items

Item	Earnings	EBITDA	Cash from operations	Total assets
Hedging – oil and gas futures (E&P):				
If they want hedge accounting	Possibly	Possibly	N	Y
If they don't use hedge accounting	N	N	N	N
Accounting for royalties and overhead recoveries (E&P)	N	N	N	N
More “parts”:				
Components	Small	N	N	Small
Impairment	Likely	N	N	Likely
Interest capitalization	Y	N	N	Y
Asset retirement obligations	Y	N	N	Y
Flow through share accounting	Y	N	N	Y

Questions?