

Additional Disclosure Guidelines for Issuers Engaged in Oil and Gas Producing Activities

If oil and gas operations are material to the issuer's business operations or financial position, the disclosure specified in this Disclosure Guide should be included in the issuer's response to Item VIII of the Disclosure Guidelines. The information may be presented in tabular form, if practicable, and with cross references, where applicable, to related information disclosed in financial statements. (Limited partnerships or joint ventures that conduct, operate, manage, or report upon oil and gas drilling or income programs, that acquire properties either for drilling and production, or for production of oil, gas, or geothermal steam or water, need not include this disclosure.)

1. PRODUCTION

A. For each of the last three fiscal years by the same geographic areas for which production data are required by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 69¹, provide:

- i) the average sales price (including transfers) per unit of oil produced and of gas produced;
- ii) the average production cost (lifting cost) per unit of production.

B. *Instructions.*

Generally, net production should include only production that is owned by the issuer and produced to its interest less royalties and production due others. However, in special situations (e.g., foreign production) net production before royalties may be provided, if more appropriate. If "net before royalty" production figures are furnished, the change from the usage of "net production" should be noted.

Any part of natural gas liquids production obtained through or from processing plant ownership rather than through leasehold ownership should be reported separately, if material.

¹ Paragraph 12 of SFAS No. 69, "Disclosures about Oil and Gas Producing Activities – an amendment of FASB Statements 19, 25, 33, and 39" requires that, if some or all of the issuer's reserves are located in foreign countries, the data should be separately reported for reserves located in (a) the issuer's home country (if significant reserves are located there) and (b) each foreign geographic area in which significant reserves are located. Foreign geographic areas are individual countries or groups of countries appropriate for meaningful disclosure under the circumstances.

Production of natural gas should include only marketable production of gas on an "as sold" basis. Production will include dry, residue, and wet gas, depending on whether liquids have been extracted before the issuer passed title. Flared gas, injected gas and gas consumed in operations should be omitted. Recovered gas-lift gas and reproduced gas should not be included until sold.

The transfer price of oil and gas produced should be determined in accordance with SFAS No. 69².

The average production cost per unit of production should be computed using production costs disclosed pursuant to SFAS No. 69.³ Units of production should be expressed in common units of production with oil or gas converted to a common unit of measure on the basis used in computing amortization (relative energy content or gross revenue method). *See* Rule 4-10(c)(3)(iii) of Regulation S-X promulgated by the Securities and Exchange Commission.⁴

² According to Paragraph 25 of SFAS No. 69, transfers to the issuer's other operations shall be based on market prices determined at the point of delivery from the producing unit. Those market prices shall represent prices equivalent to those that could be obtained in an arm's-length transaction.

³ Paragraph 24 of SFAS No. 19 (as modified by SFAS No. 69) defines production costs are those costs incurred to operate and maintain an enterprise's wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Examples of production costs (sometimes called lifting costs) are: (a) Costs of labor to operate the wells and related equipment and facilities; (b) Repairs and maintenance; (c) Materials, supplies, and fuel consumed and services utilized in operating the wells and related equipment and facilities; (d) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities; and (e) Severance or production taxes. *See also* Paragraph 25 of SFAS No. 69.

Excise taxes (based on production or revenue) are generally classified as production costs; other taxes (based on revenues less certain costs) are generally classified as income taxes, not production costs. *See* Paragraph 81 of SFAS No. 69.

Production costs do not include depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs. *See* Paragraph 25 of SFAS No. 19.

⁴ Rule 4-10(c)(3)(iii) of Regulation S-X reads:

Amortization shall be computed on the basis of physical units, with oil and gas converted to a common unit of measure on the basis of their approximate relative energy content, unless economic circumstances (related to the effects of regulated prices) indicate that use of units of revenue is a more appropriate basis of computing amortization. In the latter case, amortization shall be computed on the basis of current gross revenues (excluding royalty payments and net profits

2. PRODUCTIVE WELLS AND ACREAGE.

- A. As of a reasonably current date or as of the end of the most recent-fiscal year, the total gross and net productive wells, expressed separately for oil and gas, and the total gross and net developed acres (i.e., acres spaced or assignable to productive wells) by the geographic areas for which production data are required pursuant to footnote 1 of this Disclosure Guide.
- B. *Instructions.* For purposes of this paragraph, one or more completions in the same bore hole should be counted as one well. A footnote should disclose the number of wells with multiple completions. If one of the multiple completions in a given well is an oil completion, the well should be classified as an oil well.

A gross well or acre is a well or acre in which a working interest is owned. The number of gross wells is the total number of wells in which a working interest is owned.

A net well or acre is deemed to exist when the sum of fractional ownership working interests in gross wells or acres equals one. The number of net wells or acres is the sum of the fractional working interests owned in gross wells or acres expressed as whole numbers and fractions thereof.

For those unusual situations in which gross and net data cannot be supplied, alternative disclosure should be furnished that adequately describes the issuer's productive wells and developed acreage.

Productive wells are producing wells and wells capable of production.

3. UNDEVELOPED ACREAGE

As of a reasonably current date or as of the end of the most recent fiscal year, the amounts of undeveloped acreage, both leases and concessions, if any, expressed in both gross and net acres by appropriate geographic area, together with an indication of acreage concentrations, and, if material, the minimum remaining terms of leases and concessions. Undeveloped

disbursements) from production in relation to future gross revenues, based on current prices (including consideration of changes in existing prices provided only by contractual arrangements), from estimated production of proved oil and gas reserves. The effect of a significant price increase during the year on estimated future gross revenues shall be reflected in the amortization provision only for the period after the price increase occurs.

acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves. Undeveloped acreage should not be confused with undrilled acreage Held by Production under the terms of a lease.

4. DRILLING ACTIVITY

- A. For each of the last three fiscal years by appropriate geographic areas:
- (i) the number of net productive and dry exploratory wells drilled; and
 - (ii) the number of net productive and dry development wells drilled.
- B. *Instructions.* A dry well (hole) is an exploratory or a development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

A Productive well is an exploratory or a development well that is not a dry well.

The number of wells drilled refers to the number of wells (holes) completed at any time during the fiscal years, regardless when drilling was initiated.

The term "completion" refers to the installation of permanent equipment for the production of oil or gas, or, in the case of a dry hole, to the reporting of abandonment to the appropriate agency.

5. PRESENT ACTIVITIES

Present activities, such as the number of wells in process of drilling (including wells temporarily suspended), waterfloods in process of installation, pressure maintenance operations, and any other related operations of material importance by appropriate geographic areas. This description of present activities should be provided for an "as of" date as close to the date of filing the document as reasonably possible or as of the end of the most recent fiscal year. The disclosure of wells in the process of being drilled should include only those wells actually being drilled at the "as of" date and should be expressed in terms of both gross and net wells. The disclosure should not include wells planned but not commenced unless there are factors that make such information material.

6. DELIVERY COMMITMENTS

If the issuer is obligated to provide a fixed and determinable quantity of oil or gas in the near future under existing contracts or agreements, material information concerning the estimated availability of oil and gas from any principal sources.

- A. Such information should be furnished as to current and future reserves and supplies, and should:
 - (i) identify the principal sources of oil and gas to be relied upon and the total available amounts expected to be received from each principal source and from all sources combined;
 - (ii) disclose the total quantities of oil and gas which are subject to delivery commitments; and
 - (iii) indicate steps taken to insure available reserves and supplies are sufficient to meet such commitments. Such future information should be provided for an appropriate period of one to three years.
- B. The term "availability" is used herein to mean an estimate of that quantity of oil and gas which can be produced from current proved developed reserves using presently installed equipment under existing economic and operating conditions and an estimate of amounts that can be delivered to the issuer under long-term contracts or agreements on a per-day, per-month or per-year basis.
- C. The issuer should develop disclosure based upon the facts and circumstances of its particular situation, including disclosure by appropriate geographic areas. Such disclosure should be in a form understandable to investors and should include but not be limited to, a description of the following factors:
 - (i) significant supplies dedicated or contracted to the issuer;
 - (ii) any significant amounts of reserves or supplies subject to priorities or curtailments which may affect quantities delivered to certain classes of customers, such as customers receiving services under low priority and interruptible contracts;
 - (iii) any priority allocations or price limitations imposed by Federal or State regulatory agencies, as well as other factors beyond the control of the issuer which may affect the ability of the issuer to meet its contractual obligations (detailed discussions of price regulation need not be furnished);

- (iv) any other factors beyond the control of the issuer, such as other parties having control over the drilling of new wells, competition for the acquisition of reserves and supplies, and the availability of foreign reserves and supplies, which may affect the ability of the issuer to acquire additional reserves and supplies or to maintain or increase the availability of reserves and supplies; and
 - (v) any impact on the issuer's earnings and financing needs resulting from its inability to meet short- or long-term contractual obligations.
- D. If within the last three years the issuer has been unable to meet any significant delivery commitments, describe the circumstances concerning such events and the impact on the issuer.