

**Heritage Petroleum Company Limited**

Consolidated Financial Statements

30 September 2019

*(Presented in Thousands of Trinidad and Tobago Dollars)*

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**Heritage Petroleum Company Limited**

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**Heritage Petroleum Company Limited**  
**Statement of Management's Responsibilities**

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Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Heritage Petroleum Company Limited which comprise the consolidated statement of financial position as at 30 September 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Group keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud, and the achievement of Group operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these audited consolidated financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Except as disclosed in these consolidated statements, nothing has come to the attention of management to indicate that the Group will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying consolidated financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.



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Chief Executive Officer  
April 23, 2020



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Chief Financial Officer  
April 23, 2020



**KPMG**  
**Chartered Accountants**

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**Independent Auditors' Report**  
**To the Shareholder of Heritage Petroleum Company Limited**

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Heritage Petroleum Company Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 30 September 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2019, and its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.



## Emphasis of Matter

We draw attention to Note 24a (i) of the consolidated financial statements, which describes the effects on the Group of the global pandemic which was declared by the World Health Organization related to the novel coronavirus disease 2019 (COVID-19) as well as the implications of the fall in Brent Oil market prices subsequent to year-end. In addition, we draw attention to Note 24a (i) describing the measures that the Board of Directors have approved to be implemented to support the ongoing use of the going concern assumption in the basis of preparation of these consolidated financial statements. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Going concern basis of preparation</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The going concern assumption is a financial statement level assertion and underscores the basis on which the financial statements are prepared.</p> <p>The Group supported the preparation of the financial statements on a going concern basis with a 3-year cashflow forecast. This computation involved the use of input data and the application of significant assumptions. Small variations in either the input data or assumptions could have resulted in a significant impact on the cash flow forecasts and by extension the basis of preparation of the consolidated financial statements.</p>	<p>Our audit procedures included evaluating the revenue and cost projections used by the Group by comparing it to the relevant exploration and production licenses and reserve reports and projected oil prices.</p> <p>We also conducted sensitivity analyses on the cash flow forecast to determine the effect from the changes in key assumptions.</p> <p>We viewed written confirmation of a key assumption on the remission from payment of Supplemental Petroleum Tax liabilities from the Minister of Finance in the Government of the Republic of Trinidad and Tobago for a two-year period with effect from 1 July 2019.</p> <p>We viewed written confirmation from the Government of the Republic of Trinidad and Tobago of its intent to support Heritage Petroleum Company Limited in its financial obligations in event so required.</p>



<b>Revenue Recognition</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>We identified the recognition of revenue as a key audit matter because of the timing of the commencement of commercial activities of the Group. Whilst Heritage Petroleum Company Limited was incorporated on 5 October 2019, the commercial operations only commenced in December 2019 with the vesting of the operational assets and liabilities of the predecessor entity under the Vesting Act.</p> <p>Revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by the Group to meet financial targets.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>• assessing the appropriateness of the Group's accounting policies for revenue recognition and assessing the compliance of those the policies with IFRSs;</li><li>• testing on a sample basis the transactions recorded upon commencement of the commercial operations to ensure that transactions of the predecessor entity were not recorded by the Group;</li><li>• testing on a sample basis the correct timing of the Group's recognition of revenue; and</li><li>• assessing the testing results of the cut-off of sales transactions taking place before and after the year-end to ensure that revenue was recognized in the correct period and assessing the accuracy of the recorded sales transactions by agreeing to the external evidence such as product orders, bills of lading and bank statements.</li></ul>



<b>Abandonment Provision</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The amount of future decommissioning expenditure is estimated by reference to the decommissioning activities and actual cost incurred in restoring sites with adjustments for factors such as complexity of the technology to be applied.</p> <p>The Group exercised their judgements to determine the timing of decommissioning, discount rate and the amount of future decommissioning expenditure to develop a decommissioning plan and cashflow projections to estimate the costs associated with these obligations.</p> <p>We identified the provision for decommissioning as a key audit matter due to the significant judgement and estimation required in determining the amount of the provision.</p>	<p>Our procedures in relation to the provision for decommissioning included:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the Group’s process in developing the decommissioning plan, including discussion with our specialist and the Group’s external experts specialized in site restoration work to assess their scope and research;</li> <li>• We challenged the timing of decommissioning with reference to the relevant exploration and production licenses and reserve reports;</li> <li>• We agreed the estimated cost to dismantle to supplier quotes and rates per unit for staff costs, materials costs, transportation costs, obtain from the Group’s external expert;</li> <li>• The inflation and discount rates were compared to rates provided by independent industry data sources;</li> <li>• And evaluated sensitivity analysis performed by the Group on the key assumptions with the cash flow forecast using a range of higher discount rates and future decommissioning expenditure involved.</li> </ul>



<b>Impairment of non-current assets</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The Group's property, plant and equipment whose net book value was subject to an assessment for impairment triggered by continued low crude prices and gas in the world market.</p> <p>The assessment of the recoverable value of these assets, incorporates significant judgement in respect of factors such as future production levels, commodity prices, operating/capital costs and economic assumptions such as discount rates, inflation rates and foreign currency rates.</p> <p>Due to the magnitude of the balances, small variations in the assumptions can have a significant impact on the calculations.</p>	<p>Our procedures to audit the valuation calculation included evaluating the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to production, cost, capital expenditure, discount rates and foreign exchange rates.</p> <p>We compared the Group's assumptions against external benchmarks (for example, commodity prices, inflation and discount rates) and considered the assumptions based on our knowledge of the Group and its industry.</p> <p>Due to the complexity of the calculations, we validated the accuracy of formulae in the cash flow models and agreed relevant data inputs to the latest production plans.</p> <p>We performed sensitivity analyses of the valuation calculations on assets with a higher risk of impairment, or with the potential for a reversal of a previously recognized impairment.</p> <p>Assessing the adequacy of the Group's disclosures in respect of the significant estimates and judgments.</p>





<b>Recognition of Deferred Taxes</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The Group recognized deferred tax assets in relation to Property, Plant and Equipment and the abandonment provision on assets obtained from the predecessor entity under the Vesting Act. Due to lack of legislated clarity on the tax treatment for the transferred assets, in the books of the predecessor entity, there is some uncertainty on the wear and tear allowances.</p> <p>The recognition of the deferred tax asset is also predicated on the Group's estimate around future taxable temporary differences, namely future taxable profits.</p>	<p>Our procedures involved utilizing our tax specialist to recalculate the Group's wear and tear allowance and invariably the closing tax written down value.</p> <p>We checked whether the Group followed the requirements of International Accounting Standard 12 Income Taxes to limit recognition of its deferred tax asset to the extent of its deferred tax liability where it is not probable, at the reporting date, that there are sufficient taxable timing differences to utilize the deductible timing differences.</p>



<b>Impairment losses on trade receivables</b>	
<b><i>Description of the key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>As at 30 September 2019, the Group’s gross trade debtors were significant.</p> <p>The Group’s allowances for doubtful debts are based on the Group’s estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group’s customers and current market and customer-specific conditions, all of which involve a significant degree of judgement.</p> <p>We identified assessing the recoverability of trade debtors as a key audit matter because it involves significant judgement in determining the recoverable amount of trade debtors and because estimating the recoverable amount involves inherent uncertainty and requires the exercise of significant judgement.</p>	<p>Our audit procedures to assess the recoverability of trade debtors included the following:</p> <ul style="list-style-type: none"> <li>• obtaining an understanding of and assessing the design and implementation of the Group’s key internal controls relating to credit control, debt collection and making allowances for doubtful debts</li> <li>• assessing, on a sample basis, whether items in the trade debtors’ ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included sales invoices and goods delivery notes</li> <li>• comparing, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade debtor balances as at 30 September 2019 with bank statements and relevant remittance documentation</li> <li>• using our specialists to assess the application of IFRS 9 – Financial Instruments within the Group’s expected credit loss model.</li> </ul>



## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements** (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**  
(continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature of 'KPMG' in blue ink, with a horizontal line underneath the letters.

Chartered Accountants

Port of Spain  
Trinidad and Tobago  
April 23, 2020

**Heritage Petroleum Company Limited**

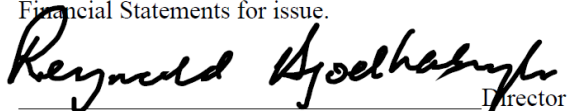
**Consolidated Statement of Financial Position**

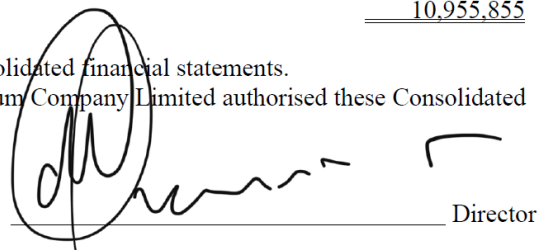
*(Presented in Thousands of Trinidad and Tobago Dollars)*

	Note	As at 30 September 2019 \$
<b>Assets</b>		
<i>Non-current assets</i>		
Property, plant and equipment		
– tangible and intangible	5	5,962,299
Investment in associate	1a, 23c	1,414
Cash in escrow	6	220,909
Income tax recoverable		177
Deferred tax assets	7c	<u>1,313,266</u>
		<u>7,498,065</u>
<i>Current assets</i>		
Inventories	8	372,777
Trade and other receivables	9	291,420
Due from related parties	2c(i)	1,477,381
Short-term investments	10	149,907
Cash and cash equivalents	11	<u>1,166,305</u>
		<u>3,457,790</u>
<b>Total assets</b>		<u><u>10,955,855</u></u>
<i>Equity attributable to owners of the parent</i>		
<i>Capital and reserves</i>		
Share Capital	12	--
Retained earnings		1,410,519
Consolidation Reserve	23a(ii)	(237,366)
Currency translation		<u>(110,866)</u>
		1,062,287
Non-controlling interests		<u>(60,567)</u>
Total Equity		<u>1,001,720</u>
<i>Non-current liabilities</i>		
Provisions	13	5,070,297
Deferred tax liability	7c	<u>1,313,266</u>
		<u>6,383,563</u>
<i>Current liabilities</i>		
Trade and other payables	14	543,671
Due to related parties	2c(ii)	2,702,508
Borrowings	15	320,794
Provisions	13	<u>3,599</u>
		<u>3,570,572</u>
<b>Total liabilities</b>		<u>9,954,135</u>
<b>Total equity and liabilities</b>		<u><u>10,955,855</u></u>

The notes on pages 16 to 58 are an integral part of these consolidated financial statements.

On 23 April 2020, the Board of Directors of Heritage Petroleum Company Limited authorised these Consolidated Financial Statements for issue.

  
Director

  
Director

**Heritage Petroleum Company Limited****Consolidated Statement of Comprehensive Income**  
*(Presented in Thousands of Trinidad and Tobago Dollars)*

		<b>Ten months ended 30 September 2019 \$</b>
	<b>Note</b>	
<b>Revenue</b>	16	5,398,209
<b>Cost of sales</b>	17	<u>(3,555,835)</u>
<b>Gross profit</b>		1,842,374
<b>Other operating income</b>	18	<u>13,821</u>
		1,856,195
Impairment	5	(82,894)
Administration	17	<u>(79,088)</u>
<b>Operating profit</b>		1,694,213
Net finance costs	19	<u>(284,995)</u>
		1,409,218
<b>Share of profit of associates accounted for using the equity method, net of tax</b>		977
<b>Profit before taxation</b>		1,410,195
<b>Taxation expense</b>	7a	<u>--</u>
<b>Profit for the period</b>		1,410,195
<b>Other comprehensive income</b>		(111,093)
Currency translation differences		<u>(111,093)</u>
<b>Total comprehensive income for the period</b>		<u><u>1,299,102</u></u>
<b>Profit attributable to:</b>		
Equity holders of the Company		1,410,519
Non-controlling interests		<u>(324)</u>
		<u><u>1,410,195</u></u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company		1,299,653
Non-controlling interests		<u>(551)</u>
		<u><u>1,299,102</u></u>

The notes on pages 16 to 58 are an integral part of these consolidated financial statements.

## Heritage Petroleum Company Limited

### Consolidated Statement of Changes in Equity

(Presented in Thousands of Trinidad and Tobago Dollars)

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	Share capital	Retained earnings	Consolidation Reserve	Currency Translation	Non Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
<b>Ten months ended 30 September 2019</b>						
Balance at 1 December 2018	--	--	--	--	--	--
Profit/(loss) for the period	--	1,410,519	--	--	(324)	1,410,195
Acquisition of subsidiary with non-controlling interest	--	--	(237,366)	--	(60,016)	(297,382)
Currency translation differences	--	--	--	(110,866)	(227)	(111,093)
Balance as at 30 September 2019	--	1,410,519	(237,366)	(110,866)	(60,567)	1,001,720

The notes on pages 16 to 58 are an integral part of these consolidated financial statements.



## Heritage Petroleum Company Limited

### Consolidated Statement of Cash Flows

(Presented in Thousands of Trinidad and Tobago Dollars)

		<b>Ten months ended 30 September 2019 \$</b>
<b>Operating activities</b>	<b>Note</b>	
Profit before taxation		1,410,195
Adjustments to reconcile profit to net cash from operating activities:		
Depreciation, depletion and amortisation	5	583,476
Impairment	5	82,894
Write back negative asset	13	(72,794)
Finance cost – unwinding	13	290,818
Write-off of property, plant and equipment		4,359
Change in inventory		148,505
Change in trade and other receivables		(155,275)
Change in trade other payables		482,103
Change in related parties		<u>(1,275,460)</u>
		1,498,821
Income taxes paid		<u>--</u>
<b>Net cash used in operating activities</b>		<u>1,498,821</u>
<b>Investing activity</b>		
Investment in jointly controlled entity		(977)
Purchase of short-term investments	10	(149,907)
Purchase of property, plant and equipment	5	<u>(193,345)</u>
<b>Net cash used in investing activities</b>		<u>(344,229)</u>
<b>Financing activities</b>		
Cash acquired from acquisition of subsidiary		37,435
Cash in escrow	6	<u>(16,944)</u>
<b>Net cash generated from financing activities</b>		<u>20,491</u>
Currency translation differences relating to cash and cash equivalents		(8,778)
<b>Net increase in cash and cash equivalents</b>		1,175,083
<b>Cash and cash equivalent at the beginning of the period</b>		<u>--</u>
<b>Cash and cash equivalents, at end of period</b>		<u><u>1,166,305</u></u>

See notes 10 and 11 for restricted cash.

The notes on pages 16 to 58 are an integral part of these parent company financial statements.

## Heritage Petroleum Company Limited

### Notes to the Consolidated Financial Statements

30 September 2019

*(Presented in Thousands of Trinidad and Tobago Dollars)*

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#### 1 Incorporation and principal activity

Heritage Petroleum Company Limited (“Heritage” or “the Company”) is incorporated in the Republic of Trinidad and Tobago on 05 October 2018. Heritage is primarily engaged in exploration, development, production and marketing of crude oil. The sole shareholder is Trinidad Petroleum Holdings Limited (TPHL). The ultimate parent is the Government of the Republic of Trinidad and Tobago (GORTT). The registered office is 5th Floor Newtown Centre 30-36 Maraval Road, Newtown, Port of Spain Trinidad and Tobago, West Indies.

The consolidated financial statements of Heritage as at and for the period ended 30 September 2019 comprise Heritage and its subsidiaries and its interest in jointly controlled entities.

Prior to Heritage’s formation, its exploration and production activities were conducted by a related party and fellow subsidiary of TPHL, Petroleum Company of Trinidad and Tobago Limited (Petrotrin). Petrotrin undertook a restructuring in 2018 and by virtue of the Miscellaneous Provisions (Heritage Petroleum Company Limited, Paria Fuel Trading Company Limited (Paria), Guaracara Refining Company Limited (Guaracara) Vesting) Bill, 2018 (“Vesting Act”); effective 01 December 2018, Petrotrin’s assets relative to exploration and production (E&P), was vested in Heritage Petroleum Company Limited. Petrotrin’s assets related to terminalling and refinery operations were vested to Paria and Guaracara respectively. The associated decommissioning and dismantlement obligations in respect of E&P, terminalling and refining operations were also transferred to the respective entities. As a result, Heritage’s opening assets and liabilities originated as a result of the above, with the corresponding liability due to Petrotrin. The carrying amounts of the assets and liabilities were accounted for using the predecessor values method because they arose from a common-control transaction. The ultimate ownership of Heritage is with Corporation Sole, the same as before the restructuring described above.

(a) *Investment in Associate*

The Company’s associate as at 30 September 2019 consists of Point Fortin LNG Exports Limited (PFLE). Refer to note 23 (c).

(b) *Investment in Subsidiaries*

The Company’s subsidiaries as at 30 September 2019 consists of Trinidad and Tobago Marine Petroleum Company Limited (Trintomar) and Trinidad Northern Areas (TNA). Refer to note 23 (a).

#### 2 Transactions with related parties

Parties are related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In the ordinary course of its business, Heritage enters into transactions concerning the exchange of goods, provision of services and financing with affiliated companies and subsidiaries as well as entities directly owned or controlled by the Government of the Republic of Trinidad and Tobago.

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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#### 2 Transactions with related parties (continued)

Most significant transactions concern:

- The exploration for and production of crude oil and natural gas through joint arrangements.
- Payment of insurance on behalf of TPHL.
- Processing fee for pipeline and marine revenue to Paria.
- Restructuring costs from Petrotrin.
- Cash advances to Petrotrin.
- Loan and interest payments on behalf of Petrotrin and TPHL.
- Transfer of assets and the liabilities directly associated with those assets from Petrotrin.

These transactions are as follows:

a. *Key management personnel compensation*

Key management personnel are those having authority and responsibility for planning, directing and controlling the Company, including executive officers and consist of the following:

	<b>2019</b>
	<b>\$</b>
Short – term employee benefits	1,613
Directors and key management remuneration (note 17)	398
Long – term benefits	<u>7,216</u>
	<u>9,227</u>

b. *Trade and financing transactions with related parties*

Trinidad Petroleum Holdings Limited - Insurance	20,881
Trinidad Petroleum Holdings Limited – Cash advances & interest	326,307
Paria Fuel Trading Company Limited – Processing fees	51,674
Petroleum Company of Trinidad and Tobago Limited	
– Cash advances & interest	852,572
Petroleum Company of Trinidad and Tobago Limited – Restructuring costs	22,429
Petroleum Company of Trinidad and Tobago Limited	
– Transfer of novated assets and associated liabilities	<u>2,492,277</u>
	<u>3,766,140</u>

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 2 Transactions with related parties (continued)

Most significant transactions concern:

c. *Outstanding balances arising from sales/purchases of goods and services*

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

(i) <i>Due from related parties</i>	<b>2019</b>
	<b>\$</b>
Trinidad Petroleum Holdings Limited	515,402
Paria Fuel Trading Company Limited	650
Petroleum Company of Trinidad and Tobago Limited	906,834
The National Gas Company of Trinidad and Tobago Limited	6,213
The Government of the Republic of Trinidad and Tobago (GORTT)	
- Value Added Tax Refundable	<u>48,282</u>
	<u>1,477,381</u>

The amount recoverable from TPHL represents mainly loan principal repayment, interest obligations and insurance charges paid on behalf of TPHL, in addition to cash advances provided. Management believes that this amount is fully recoverable in the next 12 months and no provisions have been made against it.

(ii) *Due to related parties*

Paria Fuel Trading Company Limited	24,512
Petroleum Company of Trinidad and Tobago Limited	2,492,277
The Government of the Republic of Trinidad and Tobago (GORTT)	
- Royalties	162,042
- Taxes other than income taxes	<u>23,677</u>
	<u>2,702,508</u>

The above balances are unsecured, interest free and repayable on demand.

d. *Loans to/from related parties* **2019**

(i) <i>Loans to/from parent</i>	<b>\$</b>
Beginning of the period	--
Loans advanced – TPHL	140,352
Loan repayments received	--
Interest charged	--
Interest received	<u>--</u>
End of period	<u>140,352</u>

The above balance is included in the balance in note 2 c(i) above and is unsecured, interest free and repayable on demand.

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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#### 2 Transactions with related parties (continued)

e. *Principles of consolidation and equity accounting*

*Investments – Subsidiaries and Interest in equity-accounted investees and associates*

In these consolidated financial statements, subsidiary undertakings – which are those companies in which the Group directly or indirectly, has an interest of more than half the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The investments in jointly controlled entities are accounted for using the equity method and are recognised initially at cost.

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Investments in subsidiaries are accounted for at cost less impairment. Refer to note 23(a) for investment in subsidiaries.

(ii) *Interests in equity-accounted investees*

The Company's interests in equity-accounted investees comprise interests in associates and joint ventures. Refer to note 23(c) for interests in joint ventures and associates.

(iii) *Associates*

Associates are all entities over which the Company has significant influence but not control or joint control. This is generally the case where the Company holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iv) *Joint arrangements*

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Heritage has both joint operations and joint ventures.

*Joint operations*

Heritage recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the Consolidated Financial Statements under the appropriate headings. Details of the joint operation are set out in note 23(b).

*Joint ventures*

Interests in joint ventures are accounted for using the equity method (see e (v) below), after initially being recognised at cost in the Parent Company Balance Sheet.

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

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#### 2 Transactions with related parties (continued)

(v) *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses of the investee in profit or loss, and the Company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Company.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

#### 3 Critical estimates, assumptions and errors

The preparation of Consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the consolidated financial statements. In addition, this note also explains where there have been actual adjustments this period as a result of an error and of changes to previous estimates.

(a) *Significant estimates and judgements*

The areas involving significant estimates or judgements are:

- Estimation of income taxes – Note 7
- Estimation of the assessment of impairment of property, plant and equipment – Note 5 (a) (iv)
- Estimation of oil and gas reserves – Note 5 (e)
- Estimation of the life of lease licenses – Note 5 (f)
- Estimation of decommissioning and environmental obligation – Note 13 (b).

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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### 3 Critical estimates, assumptions and errors (continued)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### 4 Financial risk management

The Group has exposure to the following risks:

- a. *Credit risk*
  - (i) Risk management
  - (ii) Credit quality
  - (iii) Exposure to credit risk
- b. *Liquidity risk*
- c. *Market risk*
  - (i) Foreign exchange risk
  - (ii) Price risk
- d. *Capital risk management*

This note contains information about the Group's exposure to each of the above risks and the objectives, policies and processes for managing and measuring the risk. Further quantitative disclosures are also included in the referred notes.

- a. *Credit risk*

The Group is exposed to credit risk, which is the risk that its customers and counterparties may cause a financial loss by failing to discharge their contractual obligations. Credit risk arises from cash and cash equivalents, deposits with financial institutions as well as outstanding receivables and committed transactions. The credit quality of customers, their financial position, past experience and other factors are taken into consideration in assessing credit risk. Management does not expect any losses from non-performance by counterparties.

- (i) *Risk management*

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB' are accepted. Cash and deposits are held with a number of reputable financial institutions, in amounts varying between TT\$3m and TT\$580m.

If trade customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, credit agency information, industry information and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by trade customers is regularly monitored by line management.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 4 Financial risk management (continued)

#### (iv) Credit risk (continued)

##### (i) Risk management (continued)

The Group has some concentration of credit risk as the majority of receivables are from several large customers. However, this risk is minimised as the Group maintains formal contracts with each of these customers that stipulate invoicing and payments terms.

##### (ii) Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	<b>2019</b>
Cash at bank	\$
Cash at bank	<u>1,166,305</u>
Trade receivables	

Some counterparties below do not have external credit ratings.

Group 1 - new customers (less than 6 months).

Group 2 - existing customers (more than 6 months) with no defaults in the past.

Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

##### (iii) Exposure to credit risk

The following is a summary of the Group's maximum exposure to credit risk:

	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Provision for impairment</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>30 September 2019</b>					
Cash in escrow	220,909	--	--	--	220,909
Cash and cash equivalents	1,166,305	--	--	--	1,166,305
Trade receivables	56,459	--	--	--	56,459
Due from related parties	6,224	1,471,157	--	--	1,477,381
Accrued revenue	96,505	--	--	--	96,505
Other receivables (excluding prepayments)	77,251	44,096	200	(200)	121,347
	<u>1,623,653</u>	<u>1,515,253</u>	<u>200</u>	<u>(200)</u>	<u>3,138,906</u>



## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

*(Presented in Thousands of Trinidad and Tobago Dollars)*

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#### 4 Financial risk management (continued)

a. *Credit risk (continued)*

(iii) *Exposure to credit risk (continued)*

The Group does not hold any collateral in relation to these assets.

The Group recognises provision for losses for assets subject to credit risk using the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group uses the following approaches in arriving at expected losses

- The simplified approach (for trade receivables)
- The general approach (for all other financial assets)

*The simplified approach*

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for Trade Receivables. The simplified approach eliminates the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred. Accordingly, a lifetime expected loss allowance is used from day 1. To measure the lifetime loss allowance, the Group first considers whether any individual customer accounts require specific provisions. Loss rates are then assigned to these accounts based on an internal risk rating system considering various qualitative and quantitative factors. All other non-specific trade receivables are then grouped based on shared credit risk characteristics and the days past due.

*The general approach*

Under the general approach, the Group considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk each company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset occurs. For all other financial assets, when the counterparty fails to make contractual payments within 90 days of when they fall due.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 4 Financial risk management (continued)

#### a. Credit risk (continued)

##### (iii) Exposure to credit risk (continued)

###### *Incorporation of forward-looking information*

Historical loss rates for trade receivables are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified no indicators to have an impact so no forward-looking rate was applied.

###### *Assets written off*

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the group. The group categorises a loan or receivable for write off when a debtor fails to make contractual payments, even after several attempts at enforcement and/or recovery efforts. Where loans or receivables have been written off, the group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

###### *Summary of ECL calculations*

The simplified approach (trade receivables)

A summary of the assumptions underpinning the group's expected credit loss model under the simplified approach is further analysed below showing:

- Specific provisions
- General provisions using a standardised provision matrix

The following is a summary of the ECL on trade receivables and accrued revenue.

<b>Aging Bucket</b>	<b>Average ECL rate %</b>	<b>Estimated exposure at default \$</b>	<b>Expected credit loss \$</b>
Current (0-30 days)	--	--	--
31 to 60 days	--	152,964	--
61 to 90 days	--	--	--
Over 90 days	--	--	--

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 4 Financial risk management (continued)

a. *Credit risk (continued)*

(iv) *Exposure to credit risk (continued)*

	<b>2019</b>
	<b>\$</b>
Opening loss allowance as at 1 December 2018	--
– calculated under IFRS 9	--
Write back of prior year provision	--
Decrease in loss allowance recognised in profit or loss during the period	--
Impairment loss – discounting	--
Unwinding of discount	--
	<u>          </u>
Balance at end of period	<u>          </u>

The following is an analysis of the net impairment expense on financial assets recognised in profit loss:

Net changes to provisions for the period per above	<u>          </u>
--	-------------------

b. *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Group's liquidity risk management process is measured and monitored by senior management within the Group.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

The main method for the measurement and monitoring of liquidity is cashflow forecasting. The Group's treasury function co-ordinates relationships with banks and cash management.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 4 Financial risk management (continued)

#### b. Liquidity risk (continued)

	Contractual cash flows	
	< 1-year \$	Carrying amount \$
<b>30 September 2019</b>		
Trade payables	9,235	9,235
Due to related parties (excluding statutory liabilities)	2,516,789	2,516,789
Loan	320,794	320,794
Accruals and other Liabilities (excluding statutory liabilities)	534,436	534,436
<b>Total</b>	<u>3,381,254</u>	<u>3,381,254</u>

#### c. Market risk

Market risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate because of changes in market prices. The Group takes on exposure to market risks from changes in foreign exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis.

##### (i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The functional currency of the Group's cashflows is the United States dollar (USD) since the Group's major product, oil is priced internationally at USD.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Foreign currency transaction exposures mainly arise on the Group's sales or purchases in currencies other than USD.

The following exchange rates were used in translating United States dollars to Trinidad and Tobago dollars at the period end and in conversions during the period:

	As at 2019 30 September
Period-end	6.73275
Average rate during the period	6.75632

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# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 4 Financial risk management (continued)

#### c. Market risk (continued)

##### (i) Foreign exchange risk

*Translational exposure in respect of non-functional currency monetary items*

The following tables demonstrate the sensitivity of the Group's profit after tax to possible movements of the USD against the TTD holding all other variables constant.

	As at 30 September 2019		
	TT\$	US\$	Total
<b><u>Assets</u></b>			
Trade and other receivables	45,868	228,443	274,311
Due from related parties	1,477,381	--	1,477,381
Cash in escrow	--	220,909	220,909
Short-term investments	--	149,907	149,907
Cash and cash equivalents	<u>261,753</u>	<u>904,552</u>	<u>1,166,305</u>
<b>Financial assets</b>	<u>1,785,002</u>	<u>1,503,811</u>	<u>3,288,813</u>
<b><u>Liabilities</u></b>			
Trade and other payables	(520,501)	(23,170)	(543,671)
Loan	(320,794)	--	(320,794)
Due to related parties	<u>(2,677,996)</u>	<u>(24,512)</u>	<u>(2,702,508)</u>
<b>Financial liabilities</b>	<u>(3,519,291)</u>	<u>(47,682)</u>	<u>(3,566,973)</u>
<b>Net currency exposure</b>	<u>(1,734,289)</u>	<u>1,456,129</u>	<u>(278,160)</u>
Reasonably possible change in exchange rate	5%		
<b>Effect on profit after tax</b>	<u>(86,714)</u>		

##### (ii) Price risk

The Group is exposed to fluctuations in the prices of liquefied natural gas (LNG) and natural gas liquids (NGLs) sales and crude oil sales sold at market prices.

As a result of these market price fluctuations the Group may in the future use established over-the-counter swaps, for crude oil, natural gas liquids and natural gas or other appropriate instruments, to hedge exposures in order to protect budgeted revenues and margins. The Group does not currently have any such hedging instruments in place.

#### d. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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### 4 Financial risk management (continued)

#### d. Capital risk management (continued)

Consistent with others in the oil and gas industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the parent and consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Gearing is the measure of financial leverage, demonstrating the degree to which the Group's activities are funded by owner's funds versus creditor's funds.

The Company has no external debt recorded as at the Statement of Financial Position, but the Company is a Guarantor on TPHL's senior secured loan issuances. The Company is also a Guarantor on TPHL's senior unsecured 144A and Reg S series International Notes. This bond was contracted on 8th May 2007 under Petrotrin. As part of the reorganization, TPHL became the new obligor of these notes with each of the Companies, Heritage, Guaracara, Paria and Petrotrin being guarantors to the notes effective 30th November 2018. See note 21 (c).

Treasury Management is thus based on the way financing is managed at the overall TPHL Group level. The Group is expected to make loan and interest repayments on behalf of TPHL in the foreseeable future even though there is no contractual obligation to do so. The obligations are expected to be as follows:

	2020	2021	2022	Total
	US\$	US\$	US\$	US\$
Interest payment	140,000	143,000	129,000	412,000
Principal repayment	<u>37,000</u>	<u>97,000</u>	<u>407,000</u>	<u>541,000</u>
Total	<u>177,000</u>	<u>240,000</u>	<u>536,000</u>	<u>953,000</u>

The gearing ratios as at 30 September 2019 were as follows:

	2019
	\$
<b>Net debt reconciliation</b>	
Cash and cash equivalents	(1,166,305)
Borrowings	320,794
Net debt	<u>(845,511)</u>
Net debt	(845,511)
Total equity	1,001,720
Net debt to equity ratio	<u>N/A</u>

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 4 Financial risk management (continued)

	Other assets Cash/bank Overdraft \$	Liabilities from financing activities Borrowings due within 1 year \$	Total \$
Debt	--	(320,794)	(320,794)
Cash flows	1,166,305	--	1,166,305
Foreign exchange adjustments	--	--	--
Other changes	--	--	--
<b>Net debt as at 30 September 2019</b>	<u>1,166,305</u>	<u>(320,794)</u>	<u>845,511</u>

#### e. Financial Instruments by category

**2019**  
\$

##### *Loans and receivables*

The accounting policies for financial instruments have been applied to the line items below:

Trade receivables	56,459
Other receivables (excluding prepayments)	121,347
Accrued revenue	96,505
Due from related parties	1,477,381
Cash in escrow	220,909
Cash at bank	<u>1,166,305</u>
	3,138,906
Financial asset at amortised cost	--
Financial assets at fair value through other comprehensive income	<u>--</u>
	<u>3,138,906</u>

The Group has no assets at fair value through profit or loss.

##### *Other financial liabilities*

Liabilities as per statement of financial position

Borrowings	320,794
Trade payables	9,235
Other payables (excluding statutory liabilities)	534,436
Due to related parties (excluding statutory liabilities)	<u>2,516,789</u>
	<u>3,381,254</u>

The Group has no liabilities at fair value through profit or loss.

**HERITAGE PETROLEUM COMPANY LIMITED**

**Notes to the Consolidated Financial Statements**

**30 September 2019**

*(Presented in Thousands of Trinidad and Tobago Dollars)*

**5 Property, plant and equipment – tangible and intangible**

	<b>Exploration and Evaluation</b>	<b>Development</b>	<b>Subtotal</b>	<b>Production</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Costs</b>					
Balance as at 1 December 2018	--	--	--	--	--
Transfers of novated assets	--	350,088	350,088	7,289,312	7,639,400
Additions from acquisition of subsidiary	--	--	--	1,135	1,135
Additions	54,246	54,017	108,263	85,082	193,345
Disposals/adjustments	--	--	--	(4,359)	(4,359)
Impairment	--	--	--	(82,894)	(82,894)
Decommissioning adjustment	--	--	--	(1,081,763)	(1,081,763)
Exchange differences	--	(1,344)	(1,344)	(115,280)	(116,624)
Balance as at 30 September 2019	<u>54,246</u>	<u>402,761</u>	<u>457,007</u>	<u>6,091,233</u>	<u>6,548,240</u>
<b>Accumulated depreciation, depletion, Amortisation and impairment losses</b>					
Balance as at 1 December 2018	--	--	--	--	--
Depreciation, depletion & amortisation	--	--	--	(583,476)	(583,476)
Exchange differences	--	--	--	(2,465)	(2,465)
Balance as at 30 September 2019	<u>--</u>	<u>--</u>	<u>--</u>	<u>(585,941)</u>	<u>(585,941)</u>
Net book amount	<u>54,246</u>	<u>402,761</u>	<u>457,007</u>	<u>5,505,292</u>	<u>5,962,299</u>
<b>At 30 September 2019</b>					
Cost	54,246	402,761	457,007	6,091,233	6,548,240
Accumulated depreciation	--	--	--	(585,941)	(585,941)
Net book amount	<u>54,246</u>	<u>402,761</u>	<u>457,007</u>	<u>5,505,292</u>	<u>5,962,299</u>



## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

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#### 5 Property, plant and equipment – tangible and intangible (continued)

##### a. Accounting policy

##### (i) Oil and gas assets

Oil and gas properties are aggregated exploration and evaluation (E&E) tangible assets associated with finding commercial reserves, and development and production expenditures related to developing the commercial reserves discovered and bringing them into production, together with E&E expenditures transferred from intangible E&E assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

##### *Exploration and evaluation assets – Capitalisation*

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Under this method, costs are accumulated on a field-by-field basis and capitalised upon discovery of commercially viable mineral reserves. If the commercial viability is not achieved or achievable, such costs are charged to expense.

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Costs incurred in the exploration and evaluation of assets includes:

License and property acquisition costs - Exploration and property leasehold acquisition costs are capitalised within intangible assets until determination of commercially viable mineral reserves. If commercial viability is not obtained these costs are written off.

Exploration and evaluation expenditure - Capitalisation is made within property, plant and equipment or intangible assets according to its nature. However, the majority of such expenditure is capitalised as an intangible asset including geological and geophysical costs. Costs directly associated with an exploration well are capitalised until the determination of commercial reserves is evaluated. If commercial reserves are found the costs continue to be carried as an asset. If commercial reserves are not found, exploration and evaluation expenditures are written off as a dry hole.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets as applicable. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

##### *Exploration and evaluation assets – Impairment*

See note 5 (a) (iv) for the accounting policy related to impairment.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 5 Property, plant and equipment – tangible and intangible (continued)

#### a. Accounting policy (continued)

##### (i) Oil and gas assets (continued)

###### *Development/Production tangible and intangible assets - Capitalisation*

###### *Acquisitions, asset purchases and disposals*

Acquisitions of oil and gas properties are accounted for under the purchase method.

Transactions involving the purchases of an individual field interest, or a group of field interests, are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, the consideration is allocated to the assets and liabilities purchased on a relative fair value basis.

Proceeds on disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed. Any excess is recorded as a gain on disposal, and any shortfall between the proceeds and the carrying amount is recorded as a loss on disposal, in profit or loss.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development commercially proven wells is capitalised within tangible and intangible assets according to its nature. When development is completed on a specific field it is transferred to production assets. No depreciation and/or amortisation are charged during the development phase.

Specific and general borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time required to complete and prepare the asset for its intended use. Interest on general borrowings eligible for capitalisation is determined by applying a capitalisation rate to expenditure on qualifying assets. The capitalisation rate is the weighted average of borrowing costs applicable to the borrowings of the Group, that are outstanding during the period, other than specific borrowings.

This amount is capitalised during the construction period of the qualifying asset, and upon completion of the asset, it is recognised in profit or loss until the maturity of borrowings.

Other borrowing costs are expensed in the period in which it is incurred.

###### *Development/Production tangible and intangible assets – Impairment*

See note 5 (a) (iv) for the accounting policy related to impairment.

###### *Production assets – Depreciation*

Oil and gas properties are depreciated generally on a field-by-field basis using the unit-of-production method. Unit-of-production rates are based on production and proved producing reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing wells with existing facilities using current operating methods. Under the unit-of-production method, oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 5 Property, plant and equipment – tangible and intangible (continued)

#### a. Accounting policy (continued)

##### (i) Oil and gas assets (continued)

###### *Production assets – Depreciation (continued)*

Producing assets are generally grouped into cash generating units with other assets that are dedicated to serving the same reserves for depreciation purposes but are depreciated separately from producing assets that serve other reserves. The cash generating unit applied for depreciation purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are inter-dependent.

###### *Provision for decommissioning costs*

Provision for decommissioning is recognised in full at the commencement of oil and gas production. The amount recognised is the net present value of the estimated cost of decommissioning at the end of the economic producing lives of the wells. Such costs include removal of equipment, restoration of land or seabed. The unwinding of the discount on the provision is included in profit or loss within finance costs.

A corresponding intangible asset is also created at an amount equal to the provision. This is subsequently depleted as part of the capital costs of the production assets. Any change in the present value of the estimated expenditure or discount rates are reflected as an adjustment to the provision and the intangible asset and dealt with prospectively.

When decommissioning liability is shared with other parties, as in the case of jointly controlled assets, the Group recognises as its provision, the proportion for which it is liable.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a risk-free rate in the same currency as the obligation and with similar maturity. These rates were obtained from the Trinidad and Tobago Treasury Yield Curve as quoted by the Central Bank of Trinidad and Tobago as at 30 September 2019. See note 14.

##### (ii) Other non-oil and gas assets

Land is not depreciated. Depreciation of other non-oil and gas assets which are included as part of the Producing assets are calculated using the following rates and methods to allocate the cost to their residual values over their estimated useful lives:

Furniture and fixtures	20% - diminishing balance
Domestic appliances	20% - diminishing balance
Buildings	5% - diminishing balance
Computer equipment/software (specialised)	10% - straight line
Computer equipment/software (non- specialised)	33.3% - straight line

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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### 5 Property, plant and equipment – tangible and intangible (continued)

#### a. Accounting policy (continued)

##### (ii) Other non-oil and gas assets (continued)

The expected useful lives of property, plant and equipment are reviewed on an annual basis, and if necessary, changes in useful lives are adjusted for prospectively.

These assets are derecognised upon disposal or when no future economic benefits are expected to arise from continued use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit or loss. Any change in the present value of the estimated expenditure or discount rates are reflected as an adjustment to the provision and the intangible asset and dealt with prospectively.

##### (iii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (ten years for specialised software, three years for non-specialised software).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly associated to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include software development, employee cost, and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 5 Property, plant and equipment – tangible and intangible (continued)

a. Accounting policy (continued)

(iv) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

Non-financial assets	
Exploration and Evaluation assets	<p>Exploration and evaluation assets are tested for impairment when reclassified to development tangible and intangible assets as applicable or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceed their recoverable amount. The recoverable amount is the higher of the exploration and evaluations assets' fair value less costs to sell and their value-in-use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units (CGUs) of related production fields located in the same geographical region. The geographical region is the same as that used for reserves reporting purposes.</p> <p>The following indicators are evaluated to determine whether these assets should be tested for impairment:</p> <ul style="list-style-type: none"><li>• the period for which the Group has the right to explore in the specific area;</li><li>• whether substantive expenditure on further exploration and evaluation in the specific area is budgeted or planned;</li><li>• whether exploration and evaluation in the specific area have not led to the discovery of commercially viable quantities and the Group has decided to discontinue such activities in the specific area;</li><li>• sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.</li></ul>

**HERITAGE PETROLEUM COMPANY LIMITED**

**Notes to the Consolidated Financial Statements**

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*(Presented in Thousands of Trinidad and Tobago Dollars)*

**5 Property, plant and equipment – tangible and intangible (continued)**

a. *Accounting policy (continued)*

(iv) *Impairment of non-financial assets*

<b>Non-financial assets</b>	
Development and Production Intangible assets	Intangible assets that have an indefinite useful life and/or are not yet available for use are not subject to amortisation, and, therefore, are tested annually for impairment.
Tangible assets	<p>Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.</p> <p>Assets are grouped together into the smallest group of assets (CGU) that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or cash generating units (CGU). The recoverable amount of the CGU is the greater of the value in use and its fair value less cost to sell.</p> <p>The value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.</p> <p>The carrying value is compared against the expected recoverable amount. If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment loss is recognised in the profit or loss and reduces the carrying amounts of the assets in the CGU.</p> <p>An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.</p> <p>The cash generating unit applied for impairment test purposes is generally the field. These fields are the same as that used for reserves reporting purposes.</p>

b. *Assets pledged as security*

There is no property, plant and equipment pledged as security by the Company except as identified in note 21 (c).

c. *Capital commitments*

Authorised and contracted for and not provided for in the consolidated financial statements

**2019**

**\$**

91,816

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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#### 5 Property, plant and equipment – tangible and intangible (continued)

##### d. *Depreciation, depletion and amortization*

Depreciation charge of \$42,398 has been charged in cost of sales.

Depletion charge of \$541,078 has been charged in cost of sales.

Costs not subject to depreciation and depletion totalled \$924,551. These are capital work in progress in the Exploration and Evaluation and Development costs.

##### e. *Oil and gas reserve estimate*

The oil and gas reserves are assessed by Management and audited by an external party in accordance with the Standards pertaining to the Estimating of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers.

Engineering estimates of the Group's oil and gas reserves are inherently uncertain. Proved reserves are the estimated volumes of crude oil, natural gas and gas condensates, liquids and associated substances which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Although there are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as proved, the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation; the accuracy of assumptions and judgment. There may be substantial upward and downward revisions to the results of drilling, testing and production after the date of the estimate. In addition, changes in oil and natural gas prices could have an effect on the value of proved reserves as regards the initial estimate. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will be recorded.

Estimated proved reserves are used in determining depletion and impairment expenses. Depletion rates on oil and gas assets using the Unit-of-Production basis are determined from the ratio between the amount of hydrocarbons extracted in the year and proved producing reserves existing at the year-end increased by the amounts extracted during the year. Assuming all other variables are held constant, an increase in estimated proved producing reserves decreases depreciation, depletion and amortisation expense. On the contrary, a decrease in estimated proved producing reserves increases depreciation, depletion and amortisation expense.

Also, estimated total proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether a property impairment test is to be carried out or not. The larger the volume of estimated reserves, the less likely the property is impaired.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 5 Property, plant and equipment – tangible and intangible (continued)

f. *Lease licenses*

It is assumed that licences to develop oil and gas properties acreages will continue to be extended to the Group by the Government of the Republic of Trinidad and Tobago throughout the remaining productive lives of the related fields. The fields below were acquired from The Petroleum Company of Trinidad and Tobago, see note 1.

Field Name	Terms of Agreement
Trinidad Northern Areas – Trinmar	Extended period of six (6) years effective 2012 December 31
Trinidad Northern Areas – North Marine	Extended period of six (6) years effective 2012 December 31
Guapo-Oropuche-Brighton Horizon (Area D)	Effective period from 2007 for twenty-five (25) years
Cruise Horizon (Area A)	Effective period from 2007 for twenty-five (25) years
Mayaro/Guayaguayare Horizon	Effective period from 2007 for twenty-five (25) years
Herrera Horizon (Area C)	Effective period from 2007 for twenty-five (25) years

The Group's estimates of reserves, the estimated provisions for decommissioning and the impairment assessments are based on this assumption.

g. *Other exploration and evaluation assets and liabilities*

In addition to the exploration and evaluation assets disclosed above, the Group also has the following assets and liabilities relating to exploration:

	<b>2019</b>
	<b>\$</b>
Receivables from joint venture partners	105,563
Payables to subcontractors and operators	<u>(26,578)</u>
	<u>78,985</u>

### 6 Cash in escrow

The land licences agreements effective in the year 2006, contain a clause requiring Heritage to establish an escrow account at an approved financial institution in the name of the Minister of Energy and Energy Affairs (The Minister). Cash reserves, calculated based on production volumes, are to be accumulated in the account for use as a contingency fund for remediation of pollution arising from Petroleum operations carried out under the licenses, as well as the eventual decommissioning of wells and facilities in the licensed areas. The Minister has sole discretion to access these funds in the event that Heritage fails to effect any environmental clean-up, properly abandon wells or decommission facilities. However, once the Group fulfils all decommissioning obligations to the satisfaction of the Minister, and upon determination of the license, the Minister shall return all existing funds in the escrow account to Heritage.

(a) *Accounting policy*

Cash in escrow is subjected to regulatory restrictions and are therefore not available for general use by the Group.



# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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### 7 Income tax expense

a. *Income tax expense*

	<b>2019</b>
	<b>\$</b>
Petroleum profits tax/unemployment Levy	----- --

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate applicable to the Group as follows:

	<b>2019</b>
	<b>\$</b>
Profit before tax	1,410,195
Tax calculated at a rate of 55%	775,607
Tax effect of permanent difference on novation of PPE on initial recognition	345,197
Initial recognition of net deductible differences from novated assets / liabilities	(2,781,335)
Deferred asset not recognised	2,212,190
Reduction in abandonment asset and PPE	(594,969)
Difference in scaled tax rate	19,355
Expenses not deductible for tax purposes	<u>23,955</u>
	----- --

The Group has tax losses amounting to \$387 million as at 30 September, 2019 of which all was utilised as part of the deferred tax asset.

b. *Accounting policy*

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 7 Income tax expense (continued)

#### b. Accounting policy (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### c. Deferred taxation

	2019 \$
At beginning of the period	--
Charge to OCI	--
At end of the period	<u>--</u>
	<u>--</u>

Deferred income taxes are calculated in full, on temporary differences under the liability method using a principal tax rate of 55%. The deferred income tax (asset)/liability in the statement of financial position and the deferred income tax charge/(credit) in the statement of profit or loss and other comprehensive income are attributable to the following:

	Charge to OCI \$	Charge/ (credit) to SOI \$	2019 \$
<b>Ten months ended 30 September 2019</b>			
<b>Deferred income tax liabilities</b>			
Accelerated tax depreciation – property, plant and equipment carried at cost		1,313,266	1,313,266
		<u>1,313,266</u>	<u>1,313,266</u>
<b>Ten months ended 30 September 2019</b>			
<b>Deferred income tax assets</b>			
Provision for abandonment		(1,116,461)	(1,116,461)
Tax losses carried forward		(193,551)	(193,551)
Exchange loss		(3,254)	(3,254)
		<u>(1,313,266)</u>	<u>(1,313,266)</u>
<b>Net deferred income tax asset/liabilities</b>		<u>--</u>	<u>--</u>

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 7 Income tax expense (continued)

#### b. *Deferred taxation (continued)*

The deferred tax asset position has been restricted to the extent of the group's deferred tax liability.

The restriction would have been against the provision for abandonment, the timing difference which at year end was TT\$ 3,328,659

### 8 Inventories

	2019 \$
Crude oil	261,459
Materials and supplies	140,251
Provision for obsolescence	<u>(28,933)</u>
	<u>372,777</u>

#### a. *Accounting policy*

Inventories of crude oil are stated at the lower of cost and net realisable value. Materials and supplies cost is determined using the weighted average cost.

##### (i) *Crude oil*

The cost of purchased crude oil is valued using the weighted average cost.

The cost of produced crude oil for the month is computed on the basis of the related month's production costs. Net realisable value is based on the market prices of an equivalent grade of crude oil.

##### (ii) *Materials and supplies*

Materials and supplies used mainly in drilling wells, recompletion and workovers are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses of the materials and supplies.

##### (iii) *Provision for obsolescence*

Materials and supplies are reviewed on an annual basis. Items are provided for based on the age of the items. Management determines the provision based on material items that are aged in excess of five years. Given that the items were received from the predecessor group (note 1), the items in excess of five years have been provided for.

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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#### 9 Trade and other receivables

	2019 \$
Trade receivables	56,459
Other receivables	121,347
Prepayments	17,109
Accrued revenue	<u>96,505</u>
	<u>291,420</u>

a. *Accounting policy*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are amounts due from customers for rental fees or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. Any provision for impairment is recognised in profit or loss within cost of sales. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited against cost of sales in profit or loss.

b. *Fair value of trade receivables*

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

#### 10 Short-term investments

	2019 \$
Short-term bank deposits	<u>149,907</u>

a. *Accounting Policy*

Short-term investments represent investments greater than 3 months but less than 12 months.

As at 30 September 2019, the investment was held as restricted amounts which comprises cash collateral held for a standby letter of credit (note 21b).

b. *Financial risk management*

The effective interest rates on cash and short-term deposits were between 0.32 % and 2.73 % per annum. Short term deposits have original maturities of one day to ten months.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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### 11 Cash and cash equivalents

2019  
\$

Current bank and cash balances 1,166,305

#### a. Accounting Policy

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdraft. Short term bank deposits are presented as cash and cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable within 24 hours' notice with no loss of interest. Bank overdrafts are shown in current liabilities in the statement of financial position.

As at 30 September 2019, the Company had restricted cash. Restricted mainly comprises cash collateral held in a debt service reserve account in connection with the Group's senior secured loan agreements (note 21 c).

	\$
The Bank of New York Mellon Trust - Debt Service Reserve	176,048
Joint Venture Escrow	<u>856</u>
	<u>176,904</u>

#### b. Financial risk management

The effective interest rates on cash and short-term deposits were between 0.32 % and 2.73 % per annum. Short term deposits have original maturities of one day to ten months.

### 12 Share capital

2019

Authorised:

An unlimited number of ordinary shares of no par value

An unlimited number of preference shares of no par value

Issued and fully paid:

1 ordinary shares of no par value

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# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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### 12 Share capital (continued)

a. *Accounting policy*

*Share capital*

Ordinary shares have no par value and entitle the holder to participate in dividends, and to share in the proceeds of winding up the parent company in proportion to the number of the shares held. On show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll share is entitled to one vote.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 13 Provisions

2019

\$

**Ten months ended 30 September 2019**

Opening amount as at 1 December 2018	5,937,569
Liability from acquisition of subsidiary	20,792
Unwinding of discount (note 19)	290,818
Decrease in provisions (note 6)	(1,154,557) *
Translation differences	<u>(20,726)</u>
Closing balance at 30 September 2019	<u>5,073,896</u>
Of which:	
Current portion	3,599
Non-current portion	<u>5,070,297</u>
	<u>5,073,896</u>

This provision represents Management's best estimate of the cost of dismantling exploration and production assets at the end of the producing lives of the fields and at the end of its useful life and includes the costs of environmental remediation. The estimated decommissioning cost at the end of the producing lives of fields is reviewed annually and is based on engineering estimates and reports. For the year ended 30 September 2019, the estimated decommissioning cost was compiled using a 3rd party service provider, utilizing information provided by Management. Key information including offshore well information was provided from recently concluded physical verification exercises, onshore well information and onshore and offshore facilities including pipelines are based on what was novated as part of the asset vesting. The provision has been estimated using existing technology, at current prices using an escalation rate of 3%, and discounted at rates between 3.8% and 6.25% based on reserves.

Included in the decrease in provisions is an amount of \$72,794 which relates to an adjustment to the abandonment liability carried for the Point Fortin Refinery. This adjustment is reflected in cost of sales within the Statement of Comprehensive Income (note 17) as the asset has a nil net book value.

The amount and timing of settlement in respect of future exploration and production decommissioning provisions are uncertain and dependent on various factors that are not always within Management's control but are currently anticipated to be between 2019 and 2069. A 1.0% change in the escalation and discount rate will have the following impact on the provision for decommissioning:

<b>Sensitivities</b>	<b>\$</b>
1% increase escalation rate	6,296,202
1% decrease escalation rate	4,299,194
1% increase in discount rate	5,247,808
1% decrease in discount rate	6,294,368

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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(Presented in Thousands of Trinidad and Tobago Dollars)

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### 13 Provisions (continued)

a. *Accounting policy*

Refer to note 5 (a) (i).

b. *Decommissioning and environmental obligations estimate*

(i) *Decommissioning obligation*

Refer to note 5 (a) (i).

(ii) *Environmental liabilities*

Together with other companies in the industries in which it operates, Heritage is subject to national, regional and local environmental laws and regulations concerning its oil and gas operations, productions and other activities, including legislation that implements international conventions or protocols. Provision for environmental costs is made when it becomes probable or certain that a liability has been incurred and the amount can be reasonably estimated. If a new regulation or a notice of a regulation violation is received, and it is likely to have a financial impact, a provision will be recorded.

### 14 Trade and other payables

2019

\$

Trade payables	9,235
Accruals	432,344
Abandonment liability – other	65,330
Other payables	22,902
Royalties and other fees	<u>13,860</u>
	<u>543,671</u>

a. *Accounting policy*

*Trade payables*

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

*Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 14 Trade and other payables (continued)

b. *Accounting policy*

*Provisions (continued)*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

c. *Fair value of trade payables*

Due to the short-term nature of the current payables, their carrying amount is assumed to be the same as their fair value.

### 15 Borrowings

2019  
\$  
320,794

The shortfall in funding in Trintomar that was required to complete the Pelican Development Project was provided by the predecessor shareholder (Petrotrin) and the National Gas Company of Trinidad and Tobago (NGC).

This is an interest free, unsecured loan with no fixed terms of repayment. While the lenders have agreed not to request repayments of any portion of this loan balance within the foreseeable future, the loan is still repayable on demand. There are no covenants for these borrowings.

### 16 Revenue

	2019 \$
Natural gas sales	328,816
Crude oil sales	4,829,108
Royalty income	229,173
Natural gas liquid sales	<u>11,112</u>
	<u>5,398,209</u>



# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

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### 16 Revenue (continued)

#### a. Accounting policy

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Under the adoption of IFRS 15, Revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised, they are as follows: identify contracts with customers, identify the separate performance obligation, determine the transaction price of the contract, allocate the transaction price to each of the separate performance obligations, and recognise the revenue as each performance obligation is satisfied.

Heritage bases its estimates on the type of customer, the type of transaction and the specifics of each arrangement.

#### (i) Sales revenue

Revenue from the sales of crude oil, natural gas and refined products is recognized when control is transferred for the ownership of the product. In general, revenue is recognized:

- crude oil – when the oil passes the vessels inlet manifold flange at the loading port for sales via shipments or
- for natural gas and natural gas liquids - when it is transferred via pipelines to the customers storage area;

The customer has full discretion over the channel and price to sell the product, and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Revenue is recognised as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

No element of financing is deemed present as typically, payment for the sale of the product is received either immediately or by the end of the month following the month in which the sale is recognised, which is consistent with market practice.

Revenues from the sale of crude oil and natural gas in properties in which Heritage has an interest together with other producers, are recognised at a point in time on the basis of Heritage's working interest in those properties (entitlement method).

#### (ii) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 17 Expenses by nature

	Ten months ended 30 September 2019	
	Cost of sales \$	Administrative expenses \$
Purchases of crude oil and natural gas	(1,261,999)	--
Production taxes	(163,122)	--
Production expenses	(759,865)	--
Movement in inventories	(112,833)	--
Depreciation, depletion and amortisation (Note 5)	(583,476)	--
Write back negative asset	72,794	--
Change in provision obsolescence	(12,777)	--
Employee benefit expense (Note 20)	(64,684)	(24,677)
Insurance	--	(24,331)
Legal and professional fees	--	(2,108)
Directors and key management remuneration (Note 2a)	--	(398)
Loss on asset write off	(4,359)	--
Processing fee	(51,674)	--
Supplemental petroleum tax (Note 17.1)	(206,013)	--
Royalty	(407,827)	--
Green fund levy	--	(16,202)
Loss on foreign currency	--	(8,348)
Other expenses	--	(3,024)
	<u>(3,555,835)</u>	<u>(79,088)</u>

### 17.1 Supplemental Petroleum Tax

By way of letter dated 17th March 2020 from the Minister of Finance on behalf of the Government of the Republic of Trinidad and Tobago has agreed to waive the Supplemental Petroleum Tax obligations with effect from July 2019 and continuing for a period of two (2) years. The amounts reflected above is for the period 01 December 2018 to 30 June 2019.

### 18 Other operating income

	2019 \$
Pipeline rentals	13,037
Miscellaneous rental and other income	<u>784</u>
	<u>13,821</u>

### 19 Net finance cost

Finance expense – bank interest	(3,547)
Finance charge on decommissioning costs (Note 13)	(290,818)
Interest income on short term investments	3,257
Interest income from bank balances	<u>6,113</u>
	<u>(284,995)</u>

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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	2019
	\$
<b>20 Employee benefits expense</b>	
Salaries and wages benefit	(63,128)
Allowances	(23,322)
Overtime	(393)
Medical services	(1,421)
National insurance	(1,097)
	<u>(89,361)</u>

### 21 Contingent liabilities

a. The Group is a party to various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not result in any significant additional liabilities and therefore no provision has been made in these consolidated financial statements.

b. Letter of credit

The Group has an outstanding letter of credit facility with a financial institution for US\$22,265,532. This credit facility was established to meet Heritage's 15% share of its abandonment liability with respect to its TSP Joint Venture (Note 25).

c. Guarantees

Heritage is a Guarantor on TPHL's senior secured loan issuances, comprising a US\$603 million term loan facility with a Syndicate of banks and US\$570.265 million (2026s) 144A and Reg S series international Notes. Senior lenders have a security interest in and continuing lien on all of Heritage's right, title and interest in, to certain of the Group's assets (excluding Heritage's reserves, equity and licenses). Heritage is required to maintain two (2) pledged accounts with a Bank - a Debt Service Reserve Account (holding three (3) consecutive months of interest, fees and expenses related to these senior secured loans) which must satisfy this Reserve Requirement as well as a Collection Account whereby at least 70% of Heritage's net revenues must flow through.

The Group is also subject to a number of negative covenants, including restrictions on the Group's ability to create liens, limitations on additional indebtedness, dividends and/or restricted payments, asset sales and sale and leaseback transactions, limitations surrounding capital expenditure and investments, transactions with Affiliates (including Petrotrin), negative pledges as well as conditions for mandatory prepayments.

Heritage is also a Guarantor on TPHL's senior unsecured US\$62.2125 million (2022s) amortizing 144A and Reg S series international Notes. (See note 4d).

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

*(Presented in Thousands of Trinidad and Tobago Dollars)*

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#### 22 Commitments

##### a. Sales commitments

The Group has entered into long-term sales contracts with a number of its customers. At the reporting date, these amounted to approximately 1,027,498 as outlined below. This is for the delivery of contracted volumes. The selling price used to value the commitment is a formula based on Platt's reference price, which is then forecasted based on Petroleum Institute Research Associates forecasts. Sales price at the actual date of sale is based on the pricing formula referenced to the Platt's posting.

<i>Product</i>	<b>Ten months ended 30 September 2019</b>	
	<b>Barrels</b>	<b>TT\$000</b>
Crude oil	2,506,107	1,027,498

##### b. Purchases commitments

There were no purchase commitments as at 30 September 2019.

## HERITAGE PETROLEUM COMPANY LIMITED

### Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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#### 23 Interests in other entities

##### a. (i) *Subsidiaries*

The Group's principal subsidiaries as at 30 September 2019 are set out below. Unless otherwise stated they have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the Company  2019 %	Ownership interest held by non-controlling interest  2019 %	Principal activities
Trinidad and Tobago Marine Petroleum Company Limited (Trintomar)	Trinidad and Tobago	80%	20%	Trintomar is principally engaged in developing and producing natural gas from the Pelican Field which originally formed part of the South East Coast Consortium area.
Trinidad Northern Areas (TNA)	United Kingdom	100%	--	TNA was formed for the specific purpose of holding certain licenses. These licenses assign certain rights to explore for, drill, develop, produce and take oil, natural gas and other hydrocarbons for certain geological areas within the jurisdiction of Trinidad and Tobago.

##### a. (ii) *Acquisition with Common Control*

The Group accounts for common control business combinations using the predecessor-values-method. Predecessor values of the assets and liabilities acquired are consolidated without any step up to fair value as at the date of the business combination. Under this method, the financial position of the acquired entity is recorded as a consolidated reserve within equity and there is no goodwill created by the transaction.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 23 Interests in other entities (continued)

b. *Interest in joint operations and associates*

Heritage has a shared control in the following joint operations which are all based in Trinidad and Tobago:

	<b>As at 30 September 2019 Effective Interest</b>
NCMA Block 9 – Offshore	19.50%
Central Block	35.00%
East Brighton Block	30.00%
Moruga West	40.00%
Point Ligoure, Guapo Bay, Brighton Marine (PGB)	30.00%
South East Coast Consortium	16.00%
South West Peninsula/Bonasse	27.50%
Parrylands ‘E’ Block	25.00%
Teak, Samaan, Poui (TSP)	15.00%
Block 22	10.00%
Block 3A	20.13%
Galeota	35.00%
NCMA 4	20.00%
Rio Claro Block	20.00%
Ortoire Block	20.00%
St. Mary’s Block	20.00%

These joint operations are involved in the exploration for and production of crude oil and natural gas. They represent unincorporated, jointly controlled operations. The Group’s interest in the assets, liabilities and expenditures of these ventures are included in the relevant components of the Group’s consolidated financial statements.

The following table sets out summarized financial data of the Group’s share of the assets and liabilities and material revenue and expenses of these jointly controlled operations. These amounts are included in the Group’s statement of financial position and profit or loss and other comprehensive income:

#### Joint operations

	<b>NCMA Block 9 – Offshore</b>	<b>Teak, Samaan, Poui (TSP)</b>	<b>Central Block</b>	<b>South East Coast Consortium</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
<b>As at 30 September 2019</b>						
<b>Assets:</b>						
Property, plant and equipment	4,127	25,603	6,504	3,233	63,315	102,782
Current assets	26,326	37,160	11,439	68,207	1,813	144,945

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 23 Interests in other entities (continued)

#### b. Interest in joint operations (continued)

##### Joint operations (continued)

	NCMA Block 9 – Offshore	Teak, Samaan, Poui (TSP)	Central Block	South East Coast Consortium	Other	Total
	\$	\$	\$	\$	\$	\$
<b>Liabilities:</b>						
Current liabilities	13,047	7,476	17,722	14,259	9,163	61,667
Commitments	1,805	6,270	197	2,537	--	10,809
<b>Period ended 30 September 2019</b>						
Revenue	196,050	201,931	68,512	82,959	3,772	553,224
Cost of sales	16,392	--	(6,171)	50,196	215,005	275,422
Income tax expenses	20,75381,403	14,611	11,558	5,354	133,679	

#### c. Interest in Associate

Heritage has a 19.5% controlling interest in Point Fortin LNG Exports Limited (PFLE) by virtue of the Miscellaneous Provisions Bill 2018 (See note 1). PFLE's main trading activity is the marketing of liquefied natural gas (LNG) on which an operating margin is earned on the sale of each LNG cargo.

### 24 Summary of significant accounting policies

This Note provides a list of the significant accounting policies adopted in the preparation of consolidated financial statements to the extent they have not already been disclosed in the other Notes above.

#### b. Basis of preparation

##### (i) Compliance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to Companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

##### (ii) Going Concern

The Separate financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet its legal and financial obligations. The validity of the going concern basis is dependent on finance being available for the continuing working capital requirements of the Company for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

*(Presented in Thousands of Trinidad and Tobago Dollars)*

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### 24 Summary of significant accounting policies (continued)

a. *Basis of preparation* (continued)

(ii) Going Concern (continued)

The Company has recognised net profit after tax of \$1,410,195 thousand for the year ended 30 September 2019 and as at this date current liabilities exceeds current assets by \$112,782 thousand. However, during FY2020 there has been a significant deterioration in the market conditions for the Company's crude income due to the impact of the worldwide pandemic Covid-19. The ongoing operations of the Company are dependent on its ability to utilise effectively its cash reserves and the Directors recognise the continuing operations of the Company requires the optimisation of planned activities to preserve cash. The Directors have a reasonable expectation that the required actions will be successful and therefore the financial statements have been prepared on the going concern basis.

In addition, the Directors have obtained a letter of financial support from its Ultimate Shareholder, the Government of the Republic of Trinidad and Tobago which can be called upon if needed to meet its legal and financial obligations as they fall due

(iii) *New standards, amendments and interpretations adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 01 December 2018:

- IFRS 9 Financial Instruments and associated amendments to various other standards
- IFRS 15 Revenue from contracts with customers and associated amendments to various other standard
- Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments



# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 24 Summary of significant accounting policies (continued)

a. *Basis of preparation (continued)*

(iv) *New standards, amendments and interpretations not yet adopted by the Group*

Title	Key Requirements	Impact	Effective Date	Mandatory application date/ Date of adoption by Group
IFRS 16 Leases	<p>IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on consolidated balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.</p> <p>The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.</p> <p>Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p> <p>The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p>	<p>The Group has set up a project team who is in the process of reviewing all the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.</p> <p>The impact of IFRS 16 has not yet been determined.</p>	<p>01 January 2019</p> <p>Early adoption is permitted only if IFRS 15 is adopted at the same time.</p>	<p>The Group will apply the standard from its mandatory adoption date of 1 January 2019.</p> <p>The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.</p>

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 24 Summary of significant accounting policies (continued)

a. *Basis of preparation (continued)*

(iv) *New standards, amendments and interpretations not yet adopted by the Group (continued)*

<b>Title</b>	<b>Key Requirements</b>	<b>Impact</b>	<b>Effective Date</b>
Annual Improvements to IFRS Standards 2015-2017 Cycle	<p>The following improvements were finalised in December 2017:</p> <ul style="list-style-type: none"> <li>• IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.</li> <li>• IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.</li> <li>• IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.</li> <li>• IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.</li> </ul>	No impact	01 January 2019
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	<p>The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:</p> <ul style="list-style-type: none"> <li>• calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change</li> <li>• any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling</li> <li>• separately recognise any changes in the asset ceiling through other comprehensive income.</li> </ul>	No impact	01 January 2019

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

### 24 Summary of significant accounting policies (continued)

(iv) *New standards, amendments and interpretations not yet adopted by the Company (continued)*

Title	Key Requirements	Impact	Effective Date
IFRIC 23 Uncertainty over Income Tax Treatments	<ul style="list-style-type: none"><li>IFRIC 23 – is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The group has not early adopted this standard and is currently assessing the impact of this interpretation on the Group accounts.</li></ul>	No impact	01 January 2019

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### b. *Foreign currency translation*

##### (i) *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The United States dollar is the Group's functional currency. The consolidated financial statements are presented in Trinidad and Tobago dollars, rounded to the nearest thousand, which is the Group's presentation currency. The Group's main stakeholders are the Government of the Republic of Trinidad & Tobago, the Ministry of Finance, TPHL, the bondholders and its employees.

##### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/ (losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

# HERITAGE PETROLEUM COMPANY LIMITED

## Notes to the Consolidated Financial Statements

30 September 2019

(Presented in Thousands of Trinidad and Tobago Dollars)

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### 24 Summary of significant accounting policies (continued)

b. *Foreign currency translation* (continued)

For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

c. Cash in escrow (Note 6 a.)

d. Current and deferred income tax (Note 7 b.)

e. Inventory (Note 8 a.)

f. Trade and other receivables (Note 9 a.)

h. Short-term investments (Note 10 a.)

i. Cash and cash equivalents (Note 11 a.)

j. Share Capital (Note 12 a.)

k. Provisions (Note 13 a.)

l. Trade and other payables (Note 14 a.)

m. Revenue recognition (Note 16 a.)

n. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the parent and consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

o. *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 25 Subsequent Events

- a. The letter of credit established to meet Heritage's 15% share of its abandonment liability with respect to its TSP Joint Venture was increased to US\$22,855,889 effective 9 December 2019. See note 21(b).
- b. The Company has been impacted by the worldwide Covid-19 pandemic. See note 24 a (ii).