

# **HERITAGE PETROLEUM COMPANY LIMITED**

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 SEPTEMBER 2020

(Presented in Thousands of Trinidad and Tobago  
Dollars)

Ernst & Young Services Limited



HERITAGE PETROLEUM COMPANY LIMITED

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED

#### **Report on the Audit of the Separate Financial Statements**

##### **Opinion**

We have audited the separate financial statements of Heritage Petroleum Company Limited (“the Company”), which comprise the separate statement of financial position as at 30 September 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 30 September 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

##### **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 *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ (“IESBA”) International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Material Uncertainty Related to Going Concern**

The accompanying separate financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the separate financial statements, the Parent company (Trinidad Petroleum Holdings Limited) has not complied with certain covenants of loan agreements of which the Company is a guarantor. Management’s evaluation of the events and conditions and management’s plans regarding these matters also are described in Note 2. The separate financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

##### **Other Matter**

The separate financial statements of Heritage Petroleum Company Limited for the year ended 30 September 2019, were audited by another auditor who expressed an unqualified opinion on those statements on 23 April 2020.



## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED

### **Report on the Audit of the Separate Financial Statements**

(Continued)

#### **Other Matter** (continued)

As part of our audit of the 2020 separate financial statements, we also audited the adjustments described in Note 2 that were applied to amend the 2019 separate financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 separate financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 separate financial statements taken as a whole.

#### **Responsibilities of Management and the Audit Committee for the Separate Financial Statements**

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 separate financial statements.

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 separate 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED

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

(Continued)

**Auditor's Responsibilities for the Audit of the Separate Financial Statements (continued)**

- 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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.



Port of Spain,  
TRINIDAD:  
14 June 2021

HERITAGE PETROLEUM COMPANY LIMITED

SEPARATE STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	2020 \$	2019* \$
<b>Assets</b>			
<i>Non-current assets</i>			
Oil and gas properties and exploration and evaluation assets	5	4,704,998	5,254,653
Other property, plant and equipment and intangible assets	6	673,394	706,400
Right of use assets	7	6,531	–
Investment in associate	8	2,148	1,414
Investment in subsidiaries	9	723	719
Other non-current financial assets	11	33,203	–
Cash in escrow	12	267,098	220,909
Deferred tax assets	13	<u>1,843,293</u>	<u>1,313,266</u>
		<u>7,531,388</u>	<u>7,497,361</u>
<i>Current assets</i>			
Inventories	14	309,569	372,239
Trade and other receivables	15	323,978	291,420
Due from related parties	16	127,654	1,472,098
Other current financial assets	11	13,525	–
Income taxes recoverable	10	148,815	–
Restricted cash - debt service reserve	30c	177,692	176,048
Short-term investment	17	156,239	149,907
Cash and cash equivalents	18	<u>1,063,273</u>	<u>952,964</u>
		2,320,745	3,414,676
Assets held for sale	19	<u>304,130</u>	<u>–</u>
		<u>2,624,875</u>	<u>3,414,676</u>
<b>Total assets</b>		<u>10,156,263</u>	<u>10,912,037</u>

The accompanying notes form an integral part of these separate financial statements.

HERITAGE PETROLEUM COMPANY LIMITED

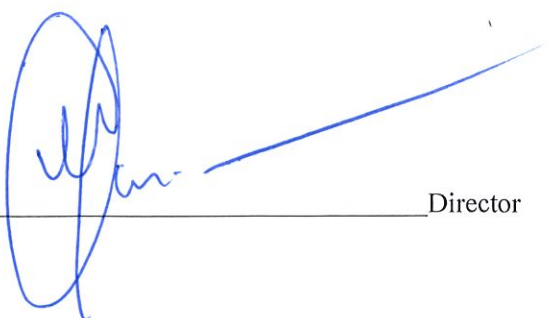
SEPARATE STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	2020 \$	2019* \$
<b><i>Equity attributable to owners of the parent</i></b>			
<i>Capital and reserves</i>			
Stated capital	20	—	—
Retained earnings		2,431,536	1,411,815
Currency translation differences	21	<u>(115,304)</u>	<u>(109,960)</u>
		<u>2,316,232</u>	<u>1,301,855</u>
<b><i>Non-current liabilities</i></b>			
Decommissioning provision	22	5,200,964	5,048,211
Lease liabilities	7	5,988	—
Deferred tax liabilities	13	<u>1,814,672</u>	<u>1,313,266</u>
		<u>7,021,624</u>	<u>6,361,477</u>
<b><i>Current liabilities</i></b>			
Trade and other payables	23	615,396	543,193
Lease liabilities	7	1,615	—
Due to related parties	16	197,835	2,701,913
Decommissioning provision	22	<u>3,561</u>	<u>3,599</u>
		<u>818,407</u>	<u>3,248,705</u>
<b>Total liabilities</b>		<u>7,840,031</u>	<u>9,610,182</u>
<b>Total equity and liabilities</b>		<u>10,156,263</u>	<u>10,912,037</u>

The accompanying notes form an integral part of these separate financial statements.

\*Certain amounts presented here for 2019 do not correspond to the previously reported 2019 separate financial statements and reflect adjustments made as detailed in Note 2 (a).

On 11 June 2021, the Board of Directors of Heritage Petroleum Company Limited authorised these separate financial statements for issue.

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

HERITAGE PETROLEUM COMPANY LIMITED

SEPARATE STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	Year ended 30 September 2020 \$	Ten months ended 30 September 2019 \$
Revenue from contracts with customers	24	4,739,793	5,398,209
Cost of sales	25	<u>(3,120,001)</u>	<u>(3,552,436)</u>
<b>Gross profit</b>		1,619,792	1,845,773
Other operating income	26	<u>15,518</u>	<u>12,459</u>
		1,635,310	1,858,232
Impairment on oil and gas properties and exploration and evaluation assets	5	(9,011)	(82,894)
Impairment on assets held for sale	19	(184,935)	–
Administrative expenses	25	<u>(181,626)</u>	<u>(79,129)</u>
<b>Operating profit</b>		1,259,738	1,696,209
Net finance costs	27	<u>(265,978)</u>	<u>(284,394)</u>
<b>Profit before taxation</b>		993,760	1,411,815
Taxation credit	29	<u>25,961</u>	<u>–</u>
<b>Profit for the period</b>		1,019,721	1,411,815
<b>Other comprehensive income</b>			
<i>Items that would not be reclassified to profit or loss</i>			
Currency translation differences		<u>(5,344)</u>	<u>(109,960)</u>
<b>Total comprehensive income for the period</b>		<u>1,014,377</u>	<u>1,301,855</u>

The accompanying notes form an integral part of these separate financial statements.



HERITAGE PETROLEUM COMPANY LIMITED

SEPARATE STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad and Tobago Dollars)

	<b>Stated capital (Note 20) \$</b>	<b>Retained earnings \$</b>	<b>Currency translation difference (Note 21) \$</b>	<b>Total \$</b>
<b>Year ended 30 September 2020</b>				
Balance at 1 October 2019	–	1,411,815	(109,960)	1,301,855
Profit for the year	–	1,019,721	–	1,019,721
Other comprehensive income for the year	<u>–</u>	<u>–</u>	<u>(5,344)</u>	<u>(5,344)</u>
Total comprehensive income for the year	<u>–</u>	<u>1,019,721</u>	<u>(5,344)</u>	<u>1,014,377</u>
Balance as at 30 September 2020	<u>–</u>	<u>2,431,536</u>	<u>(115,304)</u>	<u>2,316,232</u>
<b>Year ended 30 September 2019</b>				
Balance at 1 December 2018	–	–	–	–
Profit for the ten-month period	–	1,411,815	–	1,411,815
Other comprehensive income for the ten-month period	<u>–</u>	<u>–</u>	<u>(109,960)</u>	<u>(109,960)</u>
Total comprehensive income for the ten-month period	<u>–</u>	<u>1,411,815</u>	<u>(109,960)</u>	<u>1,301,855</u>
Balance as at 30 September 2019	<u>–</u>	<u>1,411,815</u>	<u>(109,960)</u>	<u>1,301,855</u>

The accompanying notes form an integral part of these separate financial statements.

HERITAGE PETROLEUM COMPANY LIMITED

SEPARATE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	Year ended 30 September 2020 \$	Ten months ended 30 September 2019* \$
<b>Operating activities</b>			
Profit before taxation		993,760	1,411,815
Adjustments to reconcile profit to net cash from operating activities:			
Depreciation, depletion and amortisation	5, 6, 7	542,313	583,459
Impairment on oil and gas properties	5	9,011	82,894
Impairment on assets held for sale	19	184,935	–
Change in decommissioning provision	22	(72,461)	(72,794)
Finance cost – unwinding of decommissioning provision	22	267,906	290,238
Finance cost - leases	7	424	–
Finance income		(6,332)	–
Write-off of property, plant and equipment		–	4,359
Increase in trade and other receivables		(32,558)	(157,088)
Decrease in inventory		62,670	147,209
Change in cash in escrow		(46,189)	(16,944)
Increase in due from related parties		(74,364)	(53,290)
(Decrease)/increase in due to related parties		(63,666)	200,604
Increase in trade and other payables		<u>72,203</u>	<u>483,791</u>
		1,837,652	2,904,253
Income taxes paid		<u>(150,450)</u>	<u>–</u>
<b>Net cash generated from operating activities</b>		<u>1,687,202</u>	<u>2,904,253</u>
<b>Investing activities</b>			
Investment in jointly controlled entity	8	(734)	(977)
Purchase of short-term investment	17	–	(149,907)
Investment in financial assets		(47,855)	–
Repayment on advances		1,127	–
Investment in assets held for sale	19	(286,576)	–
Purchase of property, plant and equipment and intangible assets	5,6	<u>(213,380)</u>	<u>(193,234)</u>
<b>Net cash used in investing activities</b>		<u>(547,418)</u>	<u>(344,118)</u>
<b>Financing activities</b>			
Cash payment on leases	7	(295)	–
Increase in debt service reserve	30c	(1,644)	(176,048)
Net movement in related parties		<u>(1,021,604)</u>	<u>(1,418,808)</u>
<b>Net cash used in financing activities</b>		<u>(1,023,543)</u>	<u>(1,594,856)</u>
Currency translation differences relating to cash and cash equivalents		(5,932)	(12,315)
<b>Net increase in cash and cash equivalents</b>		116,241	965,279
<b>Cash and cash equivalent at the beginning of the period</b>		<u>952,964</u>	<u>–</u>
<b>Cash and cash equivalents, at end of period</b>	18	<u>1,063,273</u>	<u>952,964</u>

The accompanying notes form an integral part of these separate financial statements.

\*Certain amounts presented here for 2019 do not correspond to the previously reported 2019 separate financial statements and reflect adjustments made as detailed in Note 2 (a).

## HERITAGE PETROLEUM COMPANY LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020 (Presented in Thousands of Trinidad And Tobago Dollars)

#### **1. Incorporation and principal activity**

Heritage Petroleum Company Limited (“Heritage” or “the Company”) was incorporated in the Republic of Trinidad and Tobago on 5 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 9 Queen’s Park West, Port of Spain, Trinidad and Tobago, West Indies.

These separate financial statements are prepared solely for statutory purposes and do not reflect the consolidation of the accounts of its subsidiary companies and associate. The Company’s consolidated financial statements, of which this Company as parent forms a part, are presented separately.

Prior to Heritage’s formation, its exploration and production activities were conducted by a related party, 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 1 December 2018, Petrotrin’s assets relative to exploration and production (E&P), were 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 2020 consists of Point Fortin LNG Exports Limited (PFLE). Refer to Note 8.

##### *(b) Investment in Subsidiaries*

The Company’s subsidiaries as at 30 September 2020 consists of Trinidad and Tobago Marine Petroleum Company Limited (Trintomar) and Trinidad Northern Areas (TNA). Refer to Note 9.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

**2. Basis of preparation and other significant accounting policies**

This note provides a list of the significant accounting policies adopted in the preparation of separate financial statements.

*a. Basis of preparation*

*(i) Compliance with IFRS*

These separate 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 separate 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 finances 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 reporting date of the separate financial statements.

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 Company (as well as Paria and Guaracara) is a Guarantor of the parent company's, (TPHL's) senior secured and unsecured debt obligations. Collectively, the Company, TPHL, Paria and Guaracara are the Loan Parties.

TPHL and the Guarantors are currently in default of certain covenants of the Credit Agreement and Indenture.

The directors and management have been advised that the Loan Parties, in consultation with the Administrative Agent of the Lenders, have approved a plan to address such defaults with the Lenders as part of the TPHL Group Refinancing currently being undertaken and is expected to be completed within twelve months of the approval of these separate financial statements. In November 2020, the Loan Parties worked with the Lenders to successfully execute a waiver for similar previous events of default under the Credit Agreement. With this recent precedent, combined with the positive nature of discussions between the Loan Parties and the Lenders to date, the directors and management are of the view that there is a strong likelihood that the execution of the waivers for the current events of default, is expected within twelve months of the approval of these separate financial statements.

HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020  
(Presented in Thousands of Trinidad And Tobago Dollars)  
(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(ii) Going concern* (continued)

TPHL and the Guarantors, through their quarterly compliance reporting process have kept the Administrative Agent of the lenders apprised of these recent “events of default”. The Board and Management working jointly with the Administrative Agent of the Lenders have agreed and approved a plan to address these “events of default” as part of the current TPHL Group refinancing process being undertaken which is expected to be completed within twelve months of the approval of these separate financial statements

The current defaults can be divided in three different groups:

First, failure by TPHL to deliver its audited consolidated financial statements for the period ended 30 September 2019, which triggered an event of default under the Credit Agreement and a default under the Indenture (the “FS Default”). This was due to delays in the delivery of the Petrotrin audited financial statements for the period ended 30 September 2019 which, have in turn, impacted the delivery of the TPHL audited group consolidated financial statements for the period.

Second, the Loan Parties have performed certain actions as part of their operations that are not permitted to be performed during the period in which a default or event of default has occurred and is continuing. Such actions include, but are not limited to, incurring capital expenditures relating to exploration and for the development of proved, undeveloped reserves and making investments in Petrotrin for the payment of interest in respect of Petrotrin’s short-term debt. Because the Loan Parties have performed such actions during the FS Default, other defaults and/or events of defaults have been triggered under the Credit Agreement and/or the Indenture.

Third, the Loan Parties have failed to comply with certain other covenants under the Credit Agreement and the Indenture that are unrelated to the occurrence and continuance of the FS Default, including, but not limited to, maintaining certain required financial ratios during the fiscal quarters ended 30 September 2020 and 31 December 2020 and paying certain insurance costs on behalf of Petrotrin, which payments constitute restricted payments. These actions have triggered defaults and/or events of defaults under the Credit Agreement and/or the Indenture.

In addition, an event of default under the Credit Agreement may, under certain circumstances, trigger an event of default under the Indenture. Similarly, a default under the Indenture may, under certain circumstances, triggers an event of default under the Credit Agreement.

HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(ii) Going concern* (continued)

Under the Indenture, a default resulting from the failure to comply with the covenants thereunder (other than a payment default) is not an “event of default” until the Trustee (at the direction of Holders holding more than 50% in aggregate principal amount of the Notes) or the Holders holding more than 25% in aggregate principal amount of the Notes then outstanding notifies the Company (and in the case of such notice by Holders, the Company and the Trustee) of the default and the Company does not cure such default within the time specified after receipt of such notice. No such Notice of Default has been received by the Company as of the approval date of these financial statements. However, an event of default exists under the Indenture’s cross-default provision resulting from the events of default existing under the Credit Agreement.

Notwithstanding the above, (i) the consent of Lenders holding more than 50% of the aggregate principal amount of the loans is still required to accelerate the Loans under the Credit Agreement, and (ii) the Holders holding more than 25% in aggregate principal amount of the Notes then outstanding still need to direct the Trustee to, in which case the Trustee by written notice to the Company, or the Required Holders by written notice to the Company and the Trustee may, declare the principal and accrued and unpaid interest on all the Notes to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. It is important to note that no such consent on the part of the Lenders or direction on the part of the Holders has occurred.

Additionally, only the voting creditors holding more than 50% of the aggregate principal of the claims outstanding (i.e., combined exposure of loans and bonds) shall be entitled to enforce on the collateral.

It should be noted that none of the events of default under the Credit Agreement or Indenture are debt service or payment related credit risk defaults, as the Company on behalf of TPHL continues to make all interest and principal payments under the terms of the Credit Agreement and the Indentures during 2020 and 2021 as follows:

	<b>Credit Agreement</b>	<b>Indenture</b>	<b>Total</b>
	\$	\$	\$
Payments in 2020			
Interest	323,647	467,187	790,834
Principal	–	140,239	140,239
Total	<u>323,647</u>	<u>607,426</u>	<u>931,073</u>
Payments made since 1 October 2020 to 31 May 2021			
Interest	134,768	253,979	388,747
Principal	361,128	140,239	501,367
Total	<u>495,896</u>	<u>394,218</u>	<u>890,114</u>

The Company reports payments made to the Lenders as an increase in amounts due from related party TPHL. See Note 30 (c) and 4 (d) for the details on the outstanding balance on the loan facilities.

HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

2. **Basis of preparation and other significant accounting policies** (continued)

a. *Basis of preparation* (continued)

(iii) *Restatement*

Within the 2019 separate statement of cashflows, there were some reclassification adjustments required to conform with the requirements of IAS 7 – *Statement of Cashflows*. This is outlined in detail below. Additionally, the 2019 comparative cash and cash equivalents was adjusted to exclude restricted cash in relation to the debt service reserve (See Note 30c).

**Impact on the 2019 separate statement of cashflow:**

	<b>Net cash generated from operating activities \$</b>	<b>Net cash used in financing activities \$</b>	<b>Cash and cash equivalents \$</b>
As previously reported	1,502,389	(16,944)	1,129,012
Classification adjustments:			
Change in due from related parties	1,418,808	(1,418,808)	–
Increase in debt service reserve	–	(176,048)	(176,048)
Change in cash in escrow	(16,944)	16,944	–
<b>Balance at 30 September 2019 (Restated)</b>	<b>2,904,253</b>	<b>(1,594,856)</b>	<b>952,964</b>

**Impact on the 2019 separate statement of financial position:**

	<b>Cash and cash equivalents \$</b>	<b>Restricted cash - debt service reserve \$</b>
As previously reported	1,129,012	–
Effects of restatement	(176,048)	176,048
<b>Balance at 30 September 2019 (Restated)</b>	<b>952,964</b>	<b>176,048</b>

HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(iii) Historical Cost Convention*

The separate financial statements have been prepared on a historical cost basis.

*(iv) New standards, amendments and interpretations adopted by the Company*

The Company applied IFRS 16 Leases for the first time. The nature and effect of changes as a result of the adoption of this new accounting standard are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the separate financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**IFRS 16 - Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 - Determining whether an arrangement contains a lease, SIC 15 Operating Leases-incentives and SIC 27 Evaluating the Substance of Transactions involving the legal form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is a Lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 October 2019. Under this method, the standard is applied retrospectively with no cumulative effect of initial application of the standard to the opening balance of retained earnings. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 October 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.



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(Continued)

2. **Basis of preparation and other significant accounting policies** (continued)

a. *Basis of preparation* (continued)

(iv) *New standards, amendments and interpretations adopted by the Company* (continued)

**IFRS 16 - Leases** (continued)

The effect of adoption of IFRS 16 as at 1 October 2019 (increase/(decrease)) is as follows:

	\$
<b>Assets</b>	
Right-of-use assets	<u>7,474</u>
<b>Total assets</b>	<u><u>7,474</u></u>
<b>Liabilities</b>	
Lease liabilities	<u>7,474</u>
<b>Total liabilities</b>	<u><u>7,474</u></u>

There were no adjustments to equity.

The lease liabilities as at 1 October 2019 can be reconciled to the operating lease commitments as of 30 September 2019 as follows:

	\$
Operating lease commitments as at 30 September 2019	20,979
Weighted average incremental borrowing rate as at 1 October 2019	5.9%
Discounted operating lease commitments at 1 October 2019	20,329
Less: Commitments relating to short-term leases	<u>(12,855)</u>
Lease liabilities as at 1 October 2019	<u><u>7,474</u></u>

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases where the Company is the lessee except for short-term leases and leases of low-value assets. Refer to Note 7 for the accounting policy beginning 1 October 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(iv) New standards, amendments and interpretations adopted by the Company* (continued)

**Leases previously classified as operating leases - Company as lessee**

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 October 2019:

- Right-of-use assets of \$7,474 were recognised and presented separately in the separate statement of financial position.
- Additional lease liabilities of \$7,474 were recognised and presented separately in the separate statement of financial position.
- There was no impact on deferred tax liabilities as at 1 October 2019.
- The above adjustments did not affect retained earnings.

Below are other amendments and interpretations which apply for the first time in 2020, but do not have an impact on the separate financial statements of the Company:

- IFRIC 23 - Uncertainty over income tax treatment
- IFRS 9 - Financial Instruments Amendments - Prepayment Features with Negative Compensation
- IAS 28 - Investments in associates and Joint Ventures Amendments - Long-term interests in associates and joint ventures
- IAS 19 - Employee Benefits Amendments - Plan Amendments, Curtailment or Settlement

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**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(iv) New standards, amendments and interpretations adopted by the Company* (continued)

**Annual Improvements to IFRSs 2015-2017**

- IFRS 3 Business Combinations - Amendments – Previously held interests in a joint operation
- IFRS 11 Joint Arrangements - Amendments – Previously held interest in joint operation
- IAS 12 Income Taxes - Amendment – Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Amendment – Borrowing costs eligible for capitalisation

These amendments have no impact on the Company.

***Standards issued but not yet effective***

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's separate financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 17, 'Insurance Contracts' – Effective 1 January 2023
- Amendments to References in the Conceptual Framework in IFRS Standards – Effective 1 January 2020
- Amendments to IFRS 3 – Definition of Business – Effective 1 January 2020
- Amendments to IAS 1 and IAS 8 – Definition of Material – Effective 1 January 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – Effective 1 January 2020
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current – Effective 1 January 2023
- Amendments to IFRS 3 – Reference to the Conceptual Framework – Effective 1 January 2022
- Amendments to IAS 16 – Proceeds before Intended Use – Effective 1 January 2022
- Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract – Effective 1 January 2023

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*a. Basis of preparation* (continued)

*(iv) New standards, amendments and interpretations adopted by the Company* (continued)

**Improvements to International Financial Reporting Standards**

The annual improvement process of the International Accounting Standards Board deals with non-urgent, but necessary clarifications and amendments to IFRS. The following amendments are applicable to periods beginning on or after 1 January 2022 but will result in no material change to the separate financial statements.

<b>IFRS</b>	<b>Subject of Amendment</b>
IFRS 1	IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
IFRS 9	IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities
IAS 41	IAS 41 Agriculture – Taxation in fair value measurements

*b. Foreign currency translation*

*(i) Functional and presentation currency*

Items included in the separate financial statements are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The United States dollar is the Company’s functional currency. The separate financial statements are presented in Trinidad and Tobago dollars, rounded to the nearest thousand, which is the Company’s presentation currency. The Company’s main stakeholders are the Government of the Republic of Trinidad and Tobago, the Ministry of Finance 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 yearend exchange rates are generally recognised in the separate statement of comprehensive income. 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 separate statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the separate statement of comprehensive income on a net basis within other gains/(losses).

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*b. Foreign currency translation* (continued)

*(ii) Transactions and balances* (continued)

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. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the separate statement of comprehensive income 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. Current versus non-current classification*

The Company presents assets and liabilities in the separate statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

*d. Fair value measurement*

At the date of classification as held for sale, the Company estimated the fair value less costs to sell of these assets and recognised a write down of these assets to the fair value less costs to sell (Note 19). Also, fair values of financial instruments measured at amortised cost are disclosed in the relevant notes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*d. Fair value measurement* (continued)

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the separate financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

See Note 19 for further details on the valuation techniques and inputs used to account for fair value less costs to sell of the assets classified as held for sale.

For assets and liabilities that are recognised in the separate financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*e. Financial assets and financial liabilities*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Company's financial assets include trade and other receivables, due from related parties, other financial assets and short-term investments.

Financial liabilities are measured at initial recognition at fair value.

The Company's financial liabilities include trade and other payables, lease liabilities and due to related parties.

*Financial assets at amortised cost*

The Company only measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Company's financial assets at amortised cost include trade and other receivables, due from related parties, other financial assets and short-term investments.

*Reclassification of financial assets and liabilities*

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2020.

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*e. Financial assets and financial liabilities* (continued)

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.



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**2. Basis of preparation and other significant accounting policies** (continued)

*e. Financial assets and financial liabilities* (continued)

*Financial assets* (continued)

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the separate statement of comprehensive income.

*f. Financial guarantees*

Financial guarantees are initially recognised in the separate financial statements at fair value which was nil (2019: nil). Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the separate statement of comprehensive income, and an ECL allowance which is nil (2019: nil).

*g. Oil and gas properties and exploration and evaluation assets* (Note 5 a)

*h. Leases* (Note 7)

*i. Deferred income tax* (Note 13)

*j. Inventory* (Note 14 a)

*k. Trade and other receivables* (Note 15 a)

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**2. Basis of preparation and other significant accounting policies** (continued)

*l. Short-term investments (Note 17 a)*

*m. Cash and cash equivalents (Note 18 a)*

*n. Share capital (Note 20 a)*

*o. Decommissioning provision (Note 22 a)*

*p. Trade and other payables (Note 23 a)*

*q. Revenue (Note 24 a)*

*r. Principles of consolidation and equity accounting*

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

*(i) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company has power over the investee (existing rights that give it the current ability to direct the relevant activities of the investee), is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to effect 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 9 for investment in subsidiaries.

*(ii) 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, after initially being recognised at cost. Refer to Note 8.

*(iii) Joint arrangements*

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

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(Continued)

**2. Basis of preparation and other significant accounting policies** (continued)

*r. Principles of consolidation and equity accounting* (continued)

*(iii) Joint arrangements* (continued)

*Joint operations*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. 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 separate financial statements under the appropriate headings. Details of the joint operation are set out in Note 32.

**3. Critical estimates, assumptions and errors**

The preparation of separate 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 separate 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:

- Assessment of impairment of property, plant and equipment – Note 5 (a) (iii)
- Oil and gas reserves estimate – Note 5 (c)
- Life of lease licenses – Note 5 (d)
- Leases – Note 7
- Provision for expected credit losses of trade receivables – Note 15
- Assets held for sale (classification) – Note 19
- Decommissioning and environmental obligations – Note 22
- Revenue recognition – Note 24
- Income taxes – Note 29

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.

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**4. Financial risk management**

The Company has exposure to the following risks:

*a. Credit risk*

The Company 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, and 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 Company 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 \$500 and \$350,000 (2019: \$5,600 and \$580,000).

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.

The Company has some concentration of credit risk as the majority of receivables are from several large customers. However, this risk is minimised as the Company 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>2020</b>	<b>2019</b>
<i>Cash at bank</i>	\$	\$
Cash at bank	<u>1,063,273</u>	<u>952,964</u>

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(Continued)

**4. Financial risk management** (continued)

*a. Credit risk* (continued)

*(iii) Exposure to credit risk*

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

<b>30 September 2020</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Provision for impairment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash in escrow	267,098	—	—	—	267,098
Other financial assets	46,728	—	—	—	46,728
Short-term investment	156,239	—	—	—	156,239
Cash and cash equivalents	1,063,273	—	—	—	1,063,273
Trade receivables	10,578	—	576	(576)	10,578
Due from related parties	127,654	—	—	—	127,654
Accrued revenue	180,416	—	—	—	180,416
Due from joint operators	17,396	—	—	—	17,396
Other receivables (excluding prepayments)	<u>6,923</u>	<u>77,695</u>	<u>—</u>	<u>—</u>	<u>84,618</u>
	<u>1,876,305</u>	<u>77,695</u>	<u>576</u>	<u>(576)</u>	<u>1,954,000</u>
<b>30 September 2019</b>					
Cash in escrow	220,909	—	—	—	220,909
Short-term investment	149,907	—	—	—	149,907
Cash and cash equivalents	952,964	—	—	—	952,964
Trade receivables	56,459	—	—	—	56,459
Due from joint operators	10,007	—	—	—	10,007
Due from related parties	52,640	1,419,458	—	—	1,472,098
Accrued revenue	86,498	—	—	—	86,498
Other receivables (excluding prepayments)	<u>77,251</u>	<u>44,096</u>	<u>—</u>	<u>—</u>	<u>121,347</u>
	<u>1,606,635</u>	<u>1,463,554</u>	<u>—</u>	<u>—</u>	<u>3,070,189</u>

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

The Company recognises provisions for losses for assets subject to credit risk using the expected credit loss model.

The Company uses the simplified approach for trade receivables in arriving at expected losses:

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(Continued)

**4. Financial risk management** (continued)

*a. Credit risk* (continued)

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

*The simplified approach*

The Company 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 Company first considers whether any individual customer accounts require specific provisions. All other non-specific trade receivables are then grouped based on shared credit risk characteristics and the days past due.

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.

*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.

*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 Company. The Company 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 Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the separate statement of comprehensive income.

*Summary of ECL calculations*

The simplified approach (trade receivables)

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

- Specific provisions
- General provisions using a standardised provision matrix

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**4. Financial risk management** (continued)

*a. Credit risk* (continued)

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

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

Aging Bucket	Average ECL rate %	Estimated exposure at default \$	Expected credit loss \$
Current (0-30 days)	0%	10,578	–
31 to 60 days	0%	–	–
61 to 90 days	0%	–	–
Over 90 days	100%	576	576
Accrued revenue	0%	180,416	–
		<b>2020</b>	<b>2019</b>
		<b>\$</b>	<b>\$</b>
Opening loss allowance as at 1 October/(1 December 2018)			
– calculated under IFRS 9		–	–
Current year provision		<u>(576)</u>	–
Balance as at 30 September		<u>(576)</u>	<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>576</u>	<u>–</u>

*b. Liquidity risk*

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

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 cash flow forecasting. The Company's treasury function co-ordinates relationships with banks and cash management.

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**4. Financial risk management** (continued)

*b. Liquidity risk* (continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the separate statement of financial position date 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.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	<b>1 year</b> \$	<b>1 – 5 years</b> \$	<b>&gt; 5 years</b> \$	<b>Carrying amount</b> \$
<b>30 September 2020</b>				
Trade payables	57,020	–	–	57,020
Lease liabilities	1,615	2,284	3,704	7,603
Due to related parties (excluding statutory liabilities)	74,033	–	–	74,033
Accruals and other liabilities	<u>558,376</u>	<u>–</u>	<u>–</u>	<u>558,376</u>
<b>Total</b>	<u><u>691,044</u></u>	<u><u>2,284</u></u>	<u><u>3,704</u></u>	<u><u>697,032</u></u>
<b>30 September 2019</b>				
Trade payables	8,956	–	–	8,956
Due to related parties (excluding statutory liabilities)	2,516,789	–	–	2,516,789
Accruals and other liabilities	<u>534,237</u>	<u>–</u>	<u>–</u>	<u>534,237</u>
<b>Total</b>	<u><u>3,059,982</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>3,059,982</u></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 Company 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.



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**4. Financial risk management** (continued)

*c. Market risk* (continued)

*(i) Foreign exchange risk* (continued)

The functional currency of the Company's cashflows is the United States dollar (USD) since the Company'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 Company'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:

	<b>As at 2020 30 September</b>	<b>As at 2019 30 September</b>
Period-end	6.76260	6.73275
Average rate during the period	6.75079	6.75632

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

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

	<b>As at 30 September 2020</b>		
	<b>TT</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>			
Trade and other receivables (excluding prepayments)	54,666	238,342	293,008
Due from related parties	127,268	386	127,654
Cash in escrow	–	267,098	267,098
Short-term investment	–	156,239	156,239
Other financial assets	27,567	19,161	46,728
Cash and cash equivalents	<u>349,197</u>	<u>714,076</u>	<u>1,063,273</u>
<b>Financial assets</b>	<u>558,698</u>	<u>1,395,302</u>	<u>1,954,000</u>

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4. **Financial risk management** (continued)

c. *Market risk* (continued)

(i) *Foreign exchange risk* (continued)

	<b>As at 30 September 2020</b>		
	<b>TT</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities</b>			
Trade and other payables	(596,882)	(18,514)	(615,396)
Lease liabilities	(573)	(7,030)	(7,603)
Due to related parties (excluding statutory liabilities)	<u>(58,754)</u>	<u>(15,279)</u>	<u>(74,033)</u>
<b>Financial liabilities</b>	<u>(656,209)</u>	<u>(40,823)</u>	<u>(697,032)</u>
<b>Net currency exposure</b>	<u><b>(97,511)</b></u>	<u><b>1,354,479</b></u>	<u><b>1,256,968</b></u>
Reasonably possible change in exchange rate	5%		
<b>Effect on profit after tax</b>	<b>(4,876)</b>		
	<b>As at 30 September 2019</b>		
	<b>TT</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>			
Trade and other receivables	180,525	93,786	274,311
Due from related parties	1,465,224	6,874	1,472,098
Cash in escrow	–	220,909	220,909
Short term investment	–	149,907	149,907
Cash and cash equivalents	<u>235,856</u>	<u>717,108</u>	<u>952,964</u>
<b>Financial assets</b>	<u>1,881,605</u>	<u>1,188,584</u>	<u>3,070,189</u>
<b>Liabilities</b>			
Trade and other payables	(520,145)	(23,048)	(543,193)
Due to related parties (excluding statutory liabilities)	<u>(2,492,277)</u>	<u>(24,512)</u>	<u>(2,516,789)</u>
<b>Financial liabilities</b>	<u>(3,012,422)</u>	<u>(47,560)</u>	<u>(3,059,982)</u>
<b>Net currency exposure</b>	<u><b>(1,130,817)</b></u>	<u><b>1,141,024</b></u>	<u><b>10,207</b></u>
Reasonably possible change in exchange rate	5%		
<b>Effect on profit after tax</b>	<u><b>(56,541)</b></u>		

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**4. Financial risk management** (continued)

*c. Market risk* (continued)

*(ii) Price risk*

The Company is exposed to fluctuations in the prices of natural gas and natural gas liquid sales and crude oil sales sold at market prices.

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

*Commodity price risk*

The Company is affected by the price volatility of certain commodities. Its operating activities require the ongoing production and purchase of crude and gas. The Company is exposed to changes in the price of these commodities, its revenue from customers and its purchases. Changes in gas pricing are immaterial.

The Company currently does not operate a hedge for its crude as all of the Company's crude is sold on a spot basis. While the Company's crude revenue is subject to international market price movements, the Company's Board of Directors believe that any reduction in price is short term in nature and markets rebound in the near term. Crude cargo pricing is based ten days around the bill of lading date and by utilising existing storage options to sell into rising price markets.

*Commodity price sensitivity*

The following table shows the effect of price changes in crude based on Heritage's Equity Barrels.

	<b>Change in year-end price</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
2020	%/barrel	'000	'000
Crude	+15%	561,850	252,832
	-15%	(561,850)	(252,832)
2019			
Crude	+15%	608,794	273,957
	-15%	(608,794)	(273,957)

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**4. Financial risk management** (continued)

*d. Capital risk management*

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the oil and gas industry, the Company 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 separate statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the separate statement of financial position plus net debt. Gearing is the measure of financial leverage, demonstrating the degree to which the Company's activities are funded by owner's funds versus creditor's funds.

The Company has no external debt recorded as at the separate 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 8 May 2007 under Petrotrin. As part of the reorganisation, TPHL became the new obligor of these notes with each of the Companies, Heritage, Guaracara, Paria and Petrotrin being guarantors to the notes effective 30 November 2018. See Note 30 (c) & Note 2.

Treasury management is thus based on the way financing is managed at the overall TPHL Group level. The Company is expected to make loan and interest repayments on behalf of TPHL in the foreseeable future. The obligations have the following maturity schedule as of 30 September 2020, which was not adjusted for any impact of the debt defaults described in Note 2:

	<b>Less than 1 year \$</b>	<b>Between 1 and 2 years \$</b>	<b>Between 2 and 4 years \$</b>	<b>Over 4 years \$</b>	<b>Total \$</b>
Interest payment	633,308	568,127	850,670	687,845	2,739,950
Principal repayment	<u>655,617</u>	<u>2,754,728</u>	<u>505,978</u>	<u>4,298,478</u>	<u>8,214,801</u>
Total	<u>1,288,925</u>	<u>3,322,855</u>	<u>1,356,648</u>	<u>4,986,323</u>	<u>10,954,751</u>

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4. **Financial risk management** (continued)

<i>d. Capital risk management</i> (continued)	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Other assets cash/bank overdraft</b>		
Debt	–	–
Cash flows	(1,063,273)	(952,964)
Foreign exchange adjustments	<u>–</u>	<u>–</u>
<b>Net debt as at 30 September</b>	<b><u>(1,063,273)</u></b>	<b><u>(952,964)</u></b>

*e. Financial instruments by category*

The accounting policies for financial instruments (Note 2e) have been applied to the line items below:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<i>Financial assets</i>		
Trade receivables	10,578	56,459
Due from joint operators	17,396	10,007
Accrued revenue	180,416	86,498
Other receivables (excluding prepayments)	84,618	121,347
Other non-current financial assets	33,203	–
Other current financial assets	13,525	–
Due from related parties	127,654	1,472,098
Cash in escrow	267,098	220,909
Short-term investments	156,239	149,907
Debt service reserve	177,692	176,048
Cash at bank and on hand	<u>1,063,273</u>	<u>952,964</u>
	<u>2,131,692</u>	<u>3,246,237</u>
<i>Financial liabilities</i>		
Trade payables	57,020	8,956
Accruals and other liabilities	558,376	534,237
Lease liabilities	7,603	–
Due to related parties (excluding statutory liabilities)	<u>74,033</u>	<u>2,516,789</u>
	<u>697,032</u>	<u>3,059,982</u>

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5. Oil and gas properties and exploration and evaluation assets

	Exploration and evaluation \$	Oil and gas properties \$	Total \$
<b>Cost</b>			
<b>At 1 December 2018</b>			
Transfer of novated assets	–	6,921,880	6,921,880
Additions	54,246	107,072	161,318
Disposals	–	(4,359)	(4,359)
Change in decommissioning provision	–	(1,081,763)	(1,081,763)
Exchange differences	–	(116,642)	(116,642)
<b>At 30 September 2019</b>	<b><u>54,246</u></b>	<b><u>5,826,188</u></b>	<b><u>5,880,434</u></b>
Additions	85,456	110,000	195,456
Transferred from exploration and evaluation	(9,140)	9,140	–
Transferred to held for sale assets (Note 19)	(42,454)	(160,035)	(202,489)
Change in decommissioning provision (Note 22)	–	(66,354)	(66,354)
Exchange differences	542	23,575	24,117
<b>At 30 September 2020</b>	<b><u>88,650</u></b>	<b><u>5,742,514</u></b>	<b><u>5,831,164</u></b>
<b>Depletion and impairment</b>			
<b>At 1 December 2018</b>			
Depreciation charge for the period	–	(540,423)	(540,423)
Provision for impairment	–	(82,894)	(82,894)
Exchange differences	–	(2,464)	(2,464)
<b>At 30 September 2019</b>	<b><u>–</u></b>	<b><u>(625,781)</u></b>	<b><u>(625,781)</u></b>
Depreciation charge for the year (Note 25)	–	(490,250)	(490,250)
Provision for impairment	–	(9,011)	(9,011)
Exchange differences	–	(1,124)	(1,124)
<b>At 30 September 2020</b>	<b><u>–</u></b>	<b><u>(1,126,166)</u></b>	<b><u>(1,126,166)</u></b>
<b>Net book value</b>			
<b>At 30 September 2019</b>	<b><u>54,246</u></b>	<b><u>5,200,407</u></b>	<b><u>5,254,653</u></b>
<b>At 30 September 2020</b>	<b><u>88,650</u></b>	<b><u>4,616,348</u></b>	<b><u>4,704,998</u></b>

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(Continued)

**5. Oil and gas properties and exploration and evaluation assets** (continued)

*a. Accounting policy*

*(i) Exploration and evaluation assets*

*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.

Costs incurred in the exploration and evaluation of assets include:

- 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 oil and gas properties assets as applicable. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

*Exploration and evaluation assets – Impairment*

See Note 5 (a) (iii) for the accounting policy related to impairment.

*(ii) Oil and gas properties*

**Oil and gas properties - Capitalisation**

*Acquisitions, asset purchases and disposals*

The cost of development and production assets 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.

Development expenditures are costs incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. These costs include transfers from exploration and evaluation subsequent to finding commercially viable reserves, development drilling and new reserve type, infrastructure costs and development geological and geophysical (“G&G”) costs.

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**5. Oil and gas properties and exploration and evaluation assets** (continued)

*a. Accounting policy* (continued)

*(ii) Oil and gas properties* (continued)

**Oil and gas properties – Capitalisation** (continued)

*Acquisitions, asset purchases and disposals* (continued)

Oil and gas properties are stated at cost, less accumulated depletion and accumulated impairment losses.

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 the separate statement of comprehensive income.

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 is charged during the development phase.

*Depreciation, amortisation and depletion*

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.

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.

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



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**5. Oil and gas properties and exploration and evaluation assets** (continued)

*a. Accounting policy* (continued)

*(iii) Impairment*

The Company evaluates assets or groups of assets called CGUs for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or CGU may not be recoverable. Management has determined its CGUs to be based on a combined field basis for its onshore and offshore fields and at an individual basis for its joint operations. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating VIU, the estimated future cash flows are 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/CGU. In determining FVLCD, recent market transactions (where available) are considered. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on the VIU model which is based on cashflows expected to be generated by the projected oil and natural gas production profiles up to the expiration of the licence agreements. Key assumptions used for the VIU calculations are as follows:

- Revenues were derived using projected production and future prices. This data was obtained from market experts;
- Direct operating costs were projected based on past experience and available historical data on lifting costs;
- The time horizon used for the valuation of the reserves was between two (2) and fifty (50) years as this represents management's estimation of the economic useful life of the economic productive life of the field at current rates of extraction;
- The cash flows beyond the 5-year period were extrapolated using projections based on constant prices and costs.
- The growth rates used for revenue and costs were 1.5% and 3%, respectively, with a discount rate of 9.36%.

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**5. Oil and gas properties and exploration and evaluation assets (continued)**

*a. Accounting policy (continued)*

*(iii) Impairment (continued)*

Impairment losses of continuing operations, including impairment of inventories, are recognised in the separate statement of comprehensive income in those expense categories consistent with the function of the impaired asset. For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the separate statement of comprehensive income.

During the year ended 30 September 2020, impairment losses on oil and gas properties assets totalling \$9,011 (2019: \$82,894) were recognised.

The impairment review determined that the commercial viability of the fields noted below has decreased as a consequence of the lower crude oil price compared to its cash costs of production. As a result, an impairment loss was recognised in the separate statement of comprehensive income for \$9,011 which represents an impairment loss of \$33,553 net of a reversal of \$24,542.

The fields showing impairment were as follows:

	<b>2020</b>	<b>2019</b>
	\$	\$
Galeota	16,033	—
Teak, Samaan, Poui (TSP)	10,651	58,352
Point Ligoure, Guapo Bay, Brighton Marine (PGB)	2,485	—
Moruga West	4,384	—
NCMA 1 – Block 9	<u>—</u>	<u>24,542</u>
Total impairment loss	33,553	82,894
Reversal of impairment loss on NCMA 1 – Block 9	<u>(24,542)</u>	<u>—</u>
Net impairment loss	<u>9,011</u>	<u>82,894</u>

Due to the completion of the field gas compression study in the NCMA block, there were increase reserves which resulted in a reversal of the prior year impairment.

All of the CGUs for which there were impairment losses recognised in the current year, form part of the oil and gas properties assets. The discount rate used in the value in use calculation was 9.36%.

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**5. Oil and gas properties and exploration and evaluation assets (continued)**

*b. Assets pledged as security*

There is no property, plant and equipment pledged as security by the Company except as identified in Note 30 (c).

*c. Oil and gas reserve estimate*

The oil and gas reserves are assessed by management and reviewed by external engineers 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 Company'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 (UoP) 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 an asset impairment test is to be carried out. The larger the volume of estimated reserves, the less likely the asset is impaired.

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**5. Oil and gas properties and exploration and evaluation assets (continued)**

*d. Licenses*

It is assumed that licences to develop oil and gas properties acreages will continue to be extended to the Company by the Government of the Republic of Trinidad and Tobago throughout the remaining productive lives of the related fields. The fields below were vested by virtue of the Miscellaneous Provisions Bill 2018 (Note 1).

<b>Field Name</b>	<b>Terms of Agreement</b>
Guapo-Oropouche-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 Company's estimates of reserves, the estimated provisions for decommissioning and the impairment assessments are based on this assumption.

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**6. Other property, plant and equipment and intangible assets**

	<b>Land and buildings \$</b>	<b>Other plant and equipment \$</b>	<b>Software assets \$</b>	<b>Total \$</b>
<b>Cost</b>				
<b>At 1 December 2018</b>				
Transfer of novated assets	375,669	331,199	10,652	717,520
Additions	<u>14,034</u>	<u>1,703</u>	<u>16,179</u>	<u>31,916</u>
<b>At 30 September 2019</b>	<b><u>389,703</u></b>	<b><u>332,902</u></b>	<b><u>26,831</u></b>	<b><u>749,436</u></b>
Additions	–	3,579	14,345	17,924
Exchange differences	<u>1,676</u>	<u>1,333</u>	<u>112</u>	<u>3,121</u>
<b>At 30 September 2020</b>	<b><u>391,379</u></b>	<b><u>337,814</u></b>	<b><u>41,288</u></b>	<b><u>770,481</u></b>
<b>Depreciation and amortisation</b>				
<b>At 1 December 2018</b>				
Depreciation charge for the period	<u>(11,674)</u>	<u>(27,453)</u>	<u>(3,909)</u>	<u>(43,036)</u>
<b>At 30 September 2019</b>	<b><u>(11,674)</u></b>	<b><u>(27,453)</u></b>	<b><u>(3,909)</u></b>	<b><u>(43,036)</u></b>
Depreciation charge for the year	(12,962)	(33,797)	(4,361)	(51,120)
Exchange differences	<u>(822)</u>	<u>(1,877)</u>	<u>(232)</u>	<u>(2,931)</u>
<b>At 30 September 2020</b>	<b><u>(25,458)</u></b>	<b><u>(63,127)</u></b>	<b><u>(8,502)</u></b>	<b><u>(97,087)</u></b>
<b>Net book value:</b>				
<b>At 30 September 2019</b>	<b><u>378,029</u></b>	<b><u>305,449</u></b>	<b><u>22,922</u></b>	<b><u>706,400</u></b>
<b>At 30 September 2020</b>	<b><u>365,921</u></b>	<b><u>274,687</u></b>	<b><u>32,786</u></b>	<b><u>673,394</u></b>

## HERITAGE PETROLEUM COMPANY LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

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#### 6. Other property, plant and equipment and intangible assets (continued)

##### a. Accounting policy

##### (i) Other property, plant and equipment

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

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

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.

##### (ii) 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.

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.

#### 7. Leases

The Company has lease contracts for land rental, and office equipment used in its operations. Leases for office equipment generally have lease terms between 1 and 3 years. The land lease is for a period of 11 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. The Company also has certain leases of office equipment and vehicles with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions for these leases. Payments made under such leases are expensed on a straight-line basis.

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**7. Leases (continued)**

The separate statement of financial position shows the following amounts relating to leases:

	<b>Land</b>	<b>2020 Air conditioning units</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Right of Use Assets</b>			
As at 1 October 2019	6,638	836	7,474
Less: Depreciation (Note 25)	<u>(664)</u>	<u>(279)</u>	<u>(943)</u>
As at 30 September 2020	<u>5,974</u>	<u>557</u>	<u>6,531</u>
<b>Lease liabilities</b>			
As at 1 October 2019	6,638	836	7,474
Interest expense (Note 27)	392	32	424
Payments	<u>—</u>	<u>(295)</u>	<u>(295)</u>
As at 30 September 2020	<u>7,030</u>	<u>573</u>	<u>7,603</u>
<b>Liabilities</b>			
Lease liabilities – non-current			5,988
Lease liabilities – current			<u>1,615</u>
<b>Total liabilities</b>			<u>7,603</u>

The separate statement of comprehensive income includes the following amounts relating to leases:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Depreciation charge on ROU assets	(943)	—
Interest expense	(424)	—
Expense relating to short-term leases (included in cost of sales)	(12,854)	(7,224)

The Company had total cash outflows for leases of \$12,854 in 2020 (2019: \$7,224).

## HERITAGE PETROLEUM COMPANY LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

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#### 7. Leases (continued)

##### a. Accounting policy

The Company assesses at contract inception whether a contract is, or contains, a lease, that is, whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. For financial year 2019, leases of motor vehicles, air conditioning units and land rental were classified as operating leases, and the Company had no finance leases. Payments made under operating leases were charged to the separate statement of comprehensive income on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the commencement date of the lease. The Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or a rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Right-of-use assets are measured at cost at the commencement date comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received; and
- Any initial direct costs.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The right-of-use assets are also subject to impairment.



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7. Leases (continued)

b. Significant judgements

*Determining the lease term of contracts with renewal and termination options – Company as lessee*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company's land lease includes an extension option. The Company applies judgement in evaluating whether it is reasonably certain whether to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset). The Company included the renewal period as part of the lease term for leases of plant and machinery with a shorter non-cancellable period (i.e., three to five years). The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods (i.e., ten to fifteen years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Company typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

The Company has a lease contract that includes extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (see Note 3). Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	<b>Within five years \$</b>	<b>More than five years \$</b>	<b>Total \$</b>
Extension options expected not to be exercised	4,215	21,073	25,288

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7. Leases (continued)

b. Significant judgements (continued)

*Estimating the incremental borrowing rate*

The Company cannot readily determine the interest rate implicit in the lease; therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

*Company as lessor*

The Company has entered into an operating lease for land. This lease has a term of twenty-five years and includes a clause to enable upward revision of the rental charge on an annual basis; according to prevailing market conditions rental income recognised by the Company during the year is \$1,739 (2019: \$693). This is included within miscellaneous rental and other income (Note 26).

Future minimum rentals receivable under non-cancellable operating leases as at 30 September are as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Within one year	886	886
After one year but not more than five years	3,542	3,542
More than five years	<u>11,204</u>	<u>12,090</u>
Total	<u>15,632</u>	<u>16,518</u>

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**8. Investment in associate**

Heritage has a 19.5% interest in Point Fortin LNG Exports Limited (PFLE) by virtue of the Miscellaneous Provisions Bill 2018 (see Note 1). PFLE is domiciled in Trinidad and Tobago and its 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. The LNG is purchased from the Atlantic LNG 2/3 Company of Trinidad and Tobago Unlimited. PFLE's registered office is 5 St Clair Avenue, Port of Spain, Trinidad and Tobago. The ultimate parent company is Royal Dutch Shell Plc.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Current assets	88,630	134,076
Current liabilities	<u>(77,613)</u>	<u>(126,823)</u>
<b>Equity</b>	<u>11,017</u>	<u>7,253</u>
Company's share in equity – 19.5% (2019: 19.5%)	<u>2,148</u>	<u>1,414</u>
<b>Company's carrying amount of the investment share of profits for period ended 30 September</b>		
Revenue from contracts with customers	391,774	1,503,060
Cost of sales	<u>(379,312)</u>	<u>(1,478,889)</u>
Operating margin	12,462	24,171
Operating expenses	(3,045)	(9,675)
Finance and other income	<u>775</u>	<u>640</u>
Profit before tax	10,192	15,136
Income tax expenses	<u>(6,425)</u>	<u>(10,126)</u>
Profit for the period	<u>3,767</u>	<u>5,010</u>
Company's share of profits – 19.5% (2019: 19.5%)	<u>734</u>	<u>977</u>

The associate had no contingent liabilities or capital commitments as at 30 September 2020 (2019: nil)

**9. Investment in subsidiaries**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cost of investment		
Trinidad Northern Areas (TNA)	720	718
Trinidad and Tobago Marine Petroleum Company Limited (Trintomar)	<u>3</u>	<u>1</u>
	<u>723</u>	<u>719</u>

The movement in the cost of investment represents foreign exchange differences.

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(Continued)

**9. Investment in subsidiaries** (continued)

The Company's principal subsidiaries as at 30 September 2020 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	Ownership interest held by non-controlling interest	Ownership interest held by the Company	Ownership interest held by non-controlling interest
		2020	2020	2019	2019
Trinidad and Tobago Marine Petroleum Company Limited (Trintomar)	Trinidad and Tobago	80%	20%	80%	20%
Trinidad Northern Areas (TNA)	United Kingdom	100%	—	100%	—

**Principal activities**

*Trinidad and Tobago Marine Petroleum Company Limited (Trintomar)*

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)*

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.

<b>10. Income taxes recoverable</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Income taxes recoverable	148,815	—

This amount represents overpayment of Petroleum Profit Taxes and Unemployment Levy in income year 2020.

<b>11. Other financial assets</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Non-current	33,203	—
Current	<u>13,525</u>	<u>—</u>
	<u>46,728</u>	<u>—</u>

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<b>11. Other financial assets</b> (continued)	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
a) Advanced Payment Bond	19,161	—
Non-current	5,636	—
Current	<u>13,525</u>	<u>—</u>
	<u>19,161</u>	<u>—</u>

The Company has entered into a two-year agreement with TOSL Engineering Limited for the provision of a Mobile Offshore Oil and Gas Production Unit. Under the agreement the Company has advanced the sum of US\$3,000 (TT equivalent \$20,288) for the commissioning of the unit which is to be repaid within eighteen months.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
b) Government Fixed Rate Bond due 2023		
Non-current	<u>27,567</u>	<u>—</u>

The Government of The Republic of Trinidad and Tobago has issued Bonds in lieu of cash refunds. The bonds are fixed rate bonds for a three-year period maturing on 15 May 2023 with an interest rate of 3.30% per annum.

The fair value of the bonds was determined by using the discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. Level 3 inputs were used in the estimation of the fair value of the bonds.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Fair value of Government Fixed Rate Bonds	<u>27,821</u>	<u>—</u>

**12. Cash in escrow**

- (a) The land licenses agreements effective in the year 2007, contain a clause requiring Heritage to establish an escrow account at the Central Bank of Trinidad and Tobago 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 Company 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.

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**12. Cash in escrow** (continued)

(b) *Accounting policy*

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

	<b>2020</b>	<b>2019</b>
	\$	\$
Novated from Petroleum Company of Trinidad and Tobago	–	203,965
Balance as at 1 October	220,909	–
Add: Transfer	<u>46,189</u>	<u>16,944</u>
Balance as at 30 September	<u>267,098</u>	<u>220,909</u>

**13. Deferred taxation**

At 30 September, and for the years ended 30 September 2020 and 2019, deferred income tax relates to the following:

	<b>Statement of comprehensive income</b>		<b>Statement of financial position</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	\$	\$	\$	\$
	<b>Credit/ (expense)</b>			
	\$			
<b>Deferred tax asset</b>				
Decommissioning provision	590,790	1,119,715	1,710,505	1,119,715
Losses carried forward	(67,141)	193,551	126,410	193,551
Vacation accrual	<u>6,378</u>	<u>–</u>	<u>6,378</u>	<u>–</u>
	<u>530,027</u>	<u>1,313,266</u>	<u>1,843,293</u>	<u>1,313,266</u>
<b>Deferred tax liability</b>				
Property, plant and equipment	<u>(501,406)</u>	<u>(1,313,266)</u>	<u>(1,814,672)</u>	<u>(1,313,266)</u>
	<u>(501,406)</u>	<u>(1,313,266)</u>	<u>(1,814,672)</u>	<u>(1,313,266)</u>
Deferred income tax credit (Note 29)	<u>28,621</u>	<u>–</u>	<u>28,621</u>	<u>–</u>

A valuation allowance of \$1,054,361 (2019: \$2,212,189) has been recorded at 30 September 2020 in relation to the net deferred tax asset on the decommissioning provision for assets to be decommissioned between 2040 to 2069.

# HERITAGE PETROLEUM COMPANY LIMITED

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

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(Continued)

### 13. Deferred taxation (continued)

#### (a) Accounting policy

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 separate 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.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax to be recovered.

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.

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 separate statement of financial position and the deferred income tax charge credit in the separate statement of comprehensive income are attributable to the following:

As at 30 September 2020, the Company has tax losses amounting to approximately \$252,820 (2019: \$387,103). Management has reviewed its forecasts and concluded that the deferred tax asset relating to the tax loss carry forward should be recognized at 30 September 2020. Losses can be carried forward indefinitely for utilization against future taxable profits.

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<b>14. Inventories</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Crude oil	221,344	261,445
Materials and supplies	134,782	123,571
Provision for obsolescence	<u>(46,557)</u>	<u>(12,777)</u>
	<u>309,569</u>	<u>372,239</u>

During 2020, \$33,752 (2019: \$12,777) was recognised as an expense for the write-down of inventories. This is recognised in cost of sales, Note 25.

*a. Accounting policy*

Inventories of crude oil are stated at the lower of cost and net realisable value.

*(i) Crude oil*

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. Cost is determined using the weighted average cost.

*(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 company (Note 1), the items in excess of five years have been provided for.

<b>15. Trade and other receivables</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Trade receivables – gross	11,154	56,459
Allowance for credit losses	<u>(576)</u>	<u>—</u>
Trade receivables – net	10,578	56,459
Other receivables	84,618	121,347
Prepayments	30,970	17,109
Due from joint operators	17,396	10,007
Accrued revenue	<u>180,416</u>	<u>86,498</u>
	<u>323,978</u>	<u>291,420</u>



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**15. Trade and other receivables** (continued)

The ageing analysis of trade receivables is as follows:

	<b>Current</b>	<b>Days past due</b>			<b>Total</b>
	<b>\$</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>&gt;90 days</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>As at 30 September 2020</b>	8,423	2,190	11	530	11,154
<b>As at 30 September 2019</b>	2,151	42,238	11,997	73	56,459

*a. Accounting policy*

Trade receivables are amounts due from customers for rental fees or services performed in the ordinary course of business.

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 Company 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 the separate statement of comprehensive income 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 the separate statement comprehensive income.

*Accrued Revenue*

Revenue from the sale of international crude oil is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred into a vessel. Revenue is accrued for based on the bill of lading date at an estimated front month Ice Brent average settlement price.

*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.

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**16. 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.

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 fees for pipeline and marine services from Paria.
- Restructuring costs from Petrotrin.
- Cash advances to 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>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Directors' fees (Note 25)	445	398
Short-term employee benefits	10,912	1,613
Long-term employee benefits	<u>296</u>	<u>7,216</u>
	<u>11,653</u>	<u>9,227</u>

*b. Trade and financing transactions with related parties*

Trinidad Petroleum Holdings Limited (TPHL)		
– Insurance	32,954	20,881
– Cash advances for settlement of loan and other fees	929,675	326,307
The Guaracara Refining Company Limited		
– Storage fees	750	–
Paria Fuel Trading Company Limited (Petrotrin)		
– Processing, bunker and storage fees	79,867	71,636
Petroleum Company of Trinidad and Tobago Limited		
– Restructuring costs and cash advances	98,001	875,001
– Transfer of novated assets and associated liabilities	<u>–</u>	<u>2,492,277</u>
	<u>1,141,247</u>	<u>3,786,102</u>

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**16. Transactions with related parties** (continued)

*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>2020</b>	<b>2019</b>
	\$	\$
Trinidad Petroleum Holdings Limited	–	515,402
Paria Fuel Trading Company Limited	386	650
Petroleum Company of Trinidad and Tobago Limited	–	903,406
The Guaracara Refining Company Limited	171	–
National Gas Company Limited	–	6,224
The Government of the Republic of Trinidad and Tobago (GORTT)		
- Value-added Tax Refundable	<u>127,097</u>	<u>46,416</u>
	<u>127,654</u>	<u>1,472,098</u>
 <i>(ii) Due to related parties</i>		
Paria Fuel Trading Company Limited	15,279	24,512
The Guaracara Refining Company Limited	1,804	–
Petroleum Company of Trinidad and Tobago Limited	51,865	2,492,277
Trinidad Petroleum Holdings Limited	5,085	–
The Government of the Republic of Trinidad and Tobago (GORTT)		
- Royalties	102,091	162,042
- Production taxes	<u>21,711</u>	<u>23,082</u>
	<u>197,835</u>	<u>2,701,913</u>

On 25 May 2021, the Board of Directors of the Company approved the following intercompany settlement effective 30 September 2020:

- The netting of amounts due to from Petrotrin against amounts due to Petrotrin.
- This transaction was considered after the amounts due to Petrotrin by the Company were assumed by TPHL as settlement of amounts owed by TPHL to the Company.

Production taxes includes petroleum levy and petroleum impost with are all payable to the Ministry of Energy and Extractive Industries (MEEI).

The Company also transacts in the normal course of business with other government owned entities such as Telecommunications Services of Trinidad and Tobago Limited (TSTT), Water and Sewage Authority (WASA) and Trinidad and Tobago Electricity Commission (T&TEC).

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	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>17. Short-term investment</b>		
Short-term investment	<u>156,239</u>	<u>149,907</u>

*a. Accounting policy*

The short-term investment represents an investment with an original maturity of sixty-one (61) days. As at 30 September 2020, the investment was held with Credit Suisse AG as restricted amounts which comprises cash collateral held for a standby letter of credit (Note 30 b). The movement in the amount represents finance income of \$6,332.

*b. Financial risk management*

The effective interest rates on cash and short-term deposits were between 0.24% and 1.88% (2019: 0.32% and 2.73%) per annum.

*c. Fair value of short-term investments*

Due to the short-term nature of these investments, the carrying amount is assumed to be the same as the fair value.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>18. Cash and cash equivalents</b>		
Current bank and cash balances	<u>1,063,273</u>	<u>952,964</u>

*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.

**19. Assets held for sale**

The Company is engaged in discussions for the sale of 100% of its interest in the Colibri Development (comprising NCMA 4 and Block 22; see Note 32) subject to government and regulatory approvals. This transaction is expected to be concluded within one year from the reporting date of these separate financial statements.

The Company entered into a Sale and Purchase Agreement for 100% of its interest in Block 3A with NGC Caribbean Investments Limited. The transaction was completed on 31 December 2020.

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**19. Assets held for sale** (continued)

On 27 May 2020, the Board of Directors ratified the decision to dispose of the Colibri Development. Management considered the asset to meet the criteria to be classified as held for sale at that date for the following reasons:

- The block is available for immediate sale and can be sold to the buyer in its current condition.
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification.
- A potential buyer has been identified and negotiations as at the reporting date are at an advanced stage.

The major classes of Assets of Block 3a and Colibri Development classified as held for sale as at 30 September 2020 are as follows:

	<b>Asset – Block 3A \$</b>	<b>Asset – Colibri Development \$</b>	<b>Total \$</b>
Transfer of novated assets	141,347	61,142	202,489
Additions in 2019 and 2020	158,109	128,467	286,576
Impairment losses	<u>(101,089)</u>	<u>(83,846)</u>	<u>(184,935)</u>
Assets held for sale	<u>198,367</u>	<u>105,763</u>	<u>304,130</u>

*Write-down of Assets*

Following the classification, a write-down of \$184,935 was recognised in the separate statement of comprehensive income on 30 September 2020 to reduce the carrying amount of the assets to their fair value less costs to sell.

The fair value less costs to sell was estimated as follows:

- Block 3A – The fair value less costs to sell represents the amount at which the assets were disposed of subsequent to year-end, 31 December 2020. On 30 December 2020, the full consideration of US\$45,576 (TT equivalent \$308,093) was received in full and final settlement.
- Colibri Development – The fair value information for the Colibri Development is based on information available to management as at the date presented. Although management is not aware of any factors that will significantly affect the fair value amounts, such amounts have not been comprehensively revalued for the purposes of these separate financial statements and, therefore the current estimates of the fair value may be different from the amounts presented herein.

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**20. Stated capital**

	<b>2020</b>	<b>2019</b>
Authorised:	<b>\$</b>	<b>\$</b>
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	<u>—</u>	<u>—</u>

*a. Accounting policy*

*Stated capital*

The 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.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>21. Currency translation differences</b>	115,304	109,960

This represents cumulative foreign currency translation differences between the Company's functional currency which is United States dollars and its presentation currency which is Trinidad and Tobago dollars.

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	2020	2019
	\$	\$
<b>22. Decommissioning provisions</b>		
<b>Year ended 30 September</b>		
Transfer of novated provisions	–	5,937,569
Opening amount as at 1 October	5,051,810	–
Unwinding of discount (Note 27)	267,906	290,238
Decrease in decommissioning provisions (Note 5)	(66,354)	(1,081,763)
Decrease in decommissioning provisions (Note 25)	(72,461)	(72,794)
Translation differences	<u>23,624</u>	<u>(21,440)</u>
Closing balance as at 30 September	<u>5,204,525</u>	<u>5,051,810</u>
Of which:		
Current portion	3,561	3,599
Non-current portion	<u>5,200,964</u>	<u>5,048,211</u>
	<u>5,204,525</u>	<u>5,051,810</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 their 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 2020, the estimated decommissioning cost was compiled using a third-party service provider, utilising information provided by management. Key information provided was offshore well information, onshore well information and onshore and offshore facilities including pipelines 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 2%, and discounted at rates between 3.75% and 5.13% based on reserves.

Included in the decrease in provisions is an amount of \$72,461 (2019: \$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 separate statement of comprehensive income (Note 25) 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 2021 and 2069. A 1% change in the escalation and discount rate will have the following impact on the decommissioning provision.

<b>Sensitivities</b>	<b>\$</b>
1% increase escalation rate	6,347,301
1% decrease escalation rate	4,309,678
1% increase in discount rate	5,133,310
1% decrease in discount rate	6,371,755

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**22. Decommissioning provisions** (continued)

*a. Accounting policy*

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, or restoration of land or seabed. The unwinding of the discount on the provision is included in profit or loss within finance costs.

A corresponding oil and gas properties 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. As at 30 September 2019, the decommissioning assets across the oil and gas properties assets were fully depreciated therefore any changes in the decommissioning liability is applied against the net book value of the related assets.

When decommissioning liability is shared with other parties, as in the case of jointly controlled assets, the Company 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 discount rates were obtained from the US Treasury Yield Curve as quoted by Bloomberg and the escalation rate is obtained from the Organisation for Economic Co-operation and Development as at 30 September 2020. The provision has been estimated using existing technology, at current prices using an escalation rate of 2%, and discounted at rates between 3.75% and 5.13% based on reserves.

<b>23. Trade and other payables</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Trade payables	57,020	8,956
Accruals	485,371	432,267
Abandonment liability – Third Party	56,877	65,330
Other payables	4,491	22,780
Royalties and other fees	<u>11,637</u>	<u>13,860</u>
	<b><u>615,396</u></b>	<b><u>543,193</u></b>

*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.



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**23. Trade and other payables** (continued)

*a. Accounting policy* (continued)

*Abandonment liability – Third Party*

The Company became party to Petrotrin’s Lease Operator and Farm Out (LOFO) and Incremental Production Service Contracts (IPSC) arrangements by virtue of the legal vesting process whereby all E&P contracts were vested from Petrotrin to them. Under these arrangements the other party is required to remit to the Company on a monthly basis an amount per barrel of oil equivalent that they produce. The funds are deposited in a separate bank account with a corresponding liability set up and included within trade and other payables in the separate statement of financial position. Upon expiry or earlier termination of these agreements the Company shall calculate the contracted party's abandonment contribution for eventual abandonment and notify the contracted party of same. If based on the Company's calculation the liability for eventual abandonment is more than the amount included in the abandonment fund this shall remain a debt owing and due to the Company and may be deductible from any amounts owed to the contracted party whether under this agreement or any other contract the Company has with that party. If the amounts in the fund exceed the liability calculated the surplus shall be paid by the Company to the contracted party. When this occurs, the amount of the liability will be released to the separate statement of comprehensive income. The historic experience is that the majority of expired LOFO and IPSC agreements were renewed on expiry and contributions to the abandonment fund continued; as such the cumulative contributions remain accounted for as an abandonment liability - other in trade and other payables on the separate statement of financial position.

*b. 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.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>24. Revenue from contracts with customers</b>		
Crude oil sales	4,415,835	4,829,108
Natural gas sales	150,152	328,816
Royalty income	164,389	229,173
Natural gas liquid sales	<u>9,417</u>	<u>11,112</u>
	<u><b>4,739,793</b></u>	<u><b>5,398,209</b></u>

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**24. Revenue from contracts with customers** (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 recognised when control is transferred for the ownership of the product. In general, revenue is recognised:

- For 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).

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**25. Expenses by nature**

	<b>Year ended 30 September 2020</b>	
	<b>Cost of sales \$</b>	<b>Administrative expenses \$</b>
Purchases	(1,020,838)	–
Production expenses	(902,723)	–
Depreciation, depletion and amortisation (Note 5, 6)	(541,370)	–
Royalty	(362,590)	–
Production taxes	(150,426)	–
Employee benefits expense (Note 28)	(100,012)	(108,000)
Processing fees	(62,723)	–
Change in provision obsolescence	(33,752)	–
Movement in inventories	(17,871)	–
Insurance	–	(31,416)
Legal and professional fees	–	(31,169)
Green fund levy	–	(14,219)
Management fees	–	(5,086)
Other expenses	–	(3,718)
Depreciation on right of use assets (Note 7)	(943)	–
Directors fees (Note 16a)	–	(445)
Expected credit loss	–	(576)
Decrease in decommissioning provision (Note 22)	72,461	–
Supplemental petroleum tax	786	–
Loss on exchange of foreign currencies	–	13,003
	<u>(3,120,001)</u>	<u>(181,626)</u>

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**25. Expenses by nature** (continued)

	<b>Ten months ended 30 September 2019</b>	
	<b>Cost of sales \$</b>	<b>Administrative expenses \$</b>
Purchases	(1,261,999)	–
Production expenses	(756,484)	–
Depreciation, depletion and amortisation (Note 5 & 6)	(583,459)	–
Royalty	(407,827)	–
Supplemental petroleum tax	(206,012)	–
Production taxes	(163,122)	–
Movement in inventories	(112,833)	–
Employee benefits expense (Note 28)	(64,684)	(24,323)
Processing fee	(51,674)	–
Insurance	–	(24,314)
Green fund levy	–	(16,195)
Change in provision obsolescence	(12,777)	–
Loss on foreign currency	–	(8,845)
Other expenses	–	(3,024)
Loss on asset write-off	(4,359)	–
Legal and professional fees	–	(2,030)
Directors fees (Note 16a)	–	(398)
Decrease in decommissioning provision (Note 22)	<u>72,794</u>	<u>–</u>
	<u>(3,552,436)</u>	<u>(79,129)</u>

By way of letter dated 17 March 2020 from the Minister of Finance on behalf of the Government of the Republic of Trinidad and Tobago, the Supplemental Petroleum Tax obligations has been waived with effect from July 2019 and continuing for a period of two (2) years. The amounts reflected above are for the period 1 December 2018 to 30 June 2019.

	<b>2020 \$</b>	<b>2019 \$</b>
<b>26. Other operating income</b>		
Pipeline rentals	10,125	10,698
Miscellaneous rental and other income	<u>5,393</u>	<u>1,761</u>
	<u>15,518</u>	<u>12,459</u>

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	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>27. Net finance cost</b>		
Finance expense – bank interest	(3,080)	(3,526)
Finance charge on decommissioning provision (Note 22)	(267,906)	(290,238)
Finance charge on leases (Note 7)	(424)	–
Interest income on short term investments	5,125	3,257
Interest income from bank balances	<u>307</u>	<u>6,113</u>
	<u>(265,978)</u>	<u>(284,394)</u>

*a. Accounting policy*

*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.

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>28. Employee benefits expense</b>		
Salaries and wages benefit	(160,930)	(62,774)
Allowances	(30,616)	(22,585)
Overtime	(1,482)	(393)
Medical services	(3,045)	(1,421)
Defined contribution plan – pension expense	(6,906)	(737)
National insurance	<u>(5,033)</u>	<u>(1,097)</u>
	<u>(208,012)</u>	<u>(89,007)</u>

*Broken down as follows:*

Cost of sales (Note 25)	(100,012)	(64,684)
Administration expenses (Note 25)	<u>(108,000)</u>	<u>(24,323)</u>
	<u>(208,012)</u>	<u>(89,007)</u>

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**29. Taxation expense**

<i>a. Income tax expense</i>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
The major components of income tax credit for the years ended 30 September are:		
<i>Current tax</i>		
Current tax charge	2,660	–
<i>Deferred tax</i>		
Relating to origination and reversal of valuation allowance on deferred tax assets	(28,621)	–
Income tax credit for the year	<u>(25,961)</u>	<u>–</u>

The tax assessed on the profit on ordinary activities for the year is different from the standard rates of tax of 55% in Trinidad and Tobago. This difference is reconciled below:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Profit before tax	993,760	1,411,815
Current tax expense at 55%	546,568	776,498
Non-deductible expenditure less income exempt from tax	26,715	23,064
Tax effect of permanent difference on novation of PPE on initial recognition	–	345,197
Impact of change in tax rate	5,211	19,355
Valuation allowance	(594,044)	(1,164,114)
Over provision	(10,411)	–
	<u>(25,961)</u>	<u>–</u>

*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 company 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. The Company is party to several exploration and production (E&P) licences, as well as, three Production Sharing Contracts (PSCs). The three PSCs are indemnified for tax purposes.

## HERITAGE PETROLEUM COMPANY LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

#### 30. Contingent liabilities

##### a. Litigation

The Company is a party to certain legal actions brought against it by third parties. 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 separate financial statements.

##### b. Letter of credit

The Company has an outstanding letter of credit facility with Credit Suisse AG, New York for US\$22,856 equivalent TT\$154,565 (2019: US\$22,265 equivalent TT\$149,907). This credit facility was established to meet Heritage's 15% share of its abandonment liability with respect to its TSP Joint Operation. Effective 31 December 2020, this facility was increased to US\$23,113 equivalent (TT\$156,269).

##### c. Guarantees

Heritage is a Guarantor on parent company, TPHL senior secured and unsecured debt obligations comprising (Note 2 (a) (ii) and Note 4 (d)):

- (i) US\$603,000 Senior Secured Term Loan facility made up of a Tranche A and Tranche B with varying interest rates and principal repayment dates.
  - Tranche A comprises a US\$388,000 loan with a three (3) years tenor maturing 15 June 2022. Interest on this tranche is at US 3-month LIBOR plus step-up margins at different intervals and payable quarterly in arrears, commencing 15 September 2019. Principal will be amortised quarterly at five percent (5%) beginning 15 June 2021, with the remaining balance payable at maturity. As at 30 September 2020, the principal balance outstanding on Tranche A was US\$388,000 (TT\$2,624,000). The interest rate as at 30 September 2020 was 5.25%
  - Tranche B comprises a US\$215 million loan with a seven (7) years tenor maturing on 15 June 2026. Interest on this tranche is at US 3-month LIBOR plus a margin and payable quarterly on the respective Tranche A interest payment dates. Equal principal amortisations are scheduled from 15 December 2020 and continue quarterly until maturity date. As at 30 September 2020, the principal balance outstanding on Tranche B was US\$215,000 (TT\$1,453,000). The interest rate as at 30 September 2020 was 6.75%
- (ii) US\$570,265 9.75% Senior Secured Notes. Interest on these Notes is payable quarterly in arrears, commencing 15 September 2019 and the principal balance is due at maturity on 15 June 2026. As at 30 September 2020, the principal balance outstanding on these Notes was US\$570,265 (TT\$3,856,792).
- (iii) 6.00% amortising Senior Unsecured Notes which mature on 8 May 2022. Principal amortisation and interest on these Notes are payable semi-annually in arrears on 8 May and 8 November, respectively. As at 30 September 2020, the principal balance outstanding on these Notes was US\$41,000 (TT\$280,000).

HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

**30. Contingent liabilities** (continued)

*c. Guarantees* (continued)

As a guarantor on TPHL's Senior secured loan, Heritage is also required to comply with the following other obligations:

- i. Senior lenders have a first priority security interest under New York law and/or Trinidad and Tobago law as applicable over certain of the Company's assets including equipment and fixtures, inventory and receivables.
- ii. Heritage is required to maintain a Debt Service Reserve Account with a Bank, which at any date of determination must satisfy a Reserve Requirement consisting of interest and senior secured creditor fees, if any, that is scheduled to become due and payable on the senior secured obligations during the three (3) consecutive months succeeding such date of determination. As at 30 September, the balance in this account is shown below:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Restricted cash - debt service reserve</b>		
Opening amount as at 1 October	176,048	–
Transfer	<u>1,644</u>	<u>176,048</u>
Closing amount as at 30 September	<u>177,692</u>	<u>176,048</u>

- iii. At least 70% of Heritage's net revenues from the sale of Product must be paid into a Collection Account held with a Bank and there are no restrictions over use of these funds except in the case of a collateral event of default under the Master Collateral and Intercreditor Agreement. As at 30 September 2020, there has been no collateral event of default.
- iv. The Company is also subject to a number of negative covenants, including restrictions on the Company'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 and conditions for mandatory prepayments.



HERITAGE PETROLEUM COMPANY LIMITED

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2020

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(Continued)

**31. Commitments**

*a. Sales commitments*

The Company has entered into sales contracts with a number of its customers. At the reporting date, these amounted to approximately TT\$712,907 (2019: TT\$1,027,496) as outlined below:

<i>Product</i>	<i>Year ended</i> <i>30 September 2020</i>		<i>Year ended</i> <i>30 September 2019</i>	
	<b>Barrels</b>	<b>\$000</b>	<b>Barrels</b>	<b>\$000</b>
Crude oil	2,598,805	712,907	2,506,107	1,027,498
<i>b. Capital commitments</i>			<b>2020</b>	<b>2019</b>
			<b>\$</b>	<b>\$</b>
Authorised and contracted for and not provided for in the separate financial statements			67,613	91,816

**32. Interests in other entities**

*Interest in joint operations*

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

<b>Effective interest</b>	<b>As at</b> <b>30 September 2020</b>	<b>As at</b> <b>30 September 2019</b>
Moruga West	40.00%	40.00%
Central Block	35.00%	35.00%
Galeota	35.00%	35.00%
East Brighton Block	30.00%	30.00%
Point Ligoure, Guapo Bay, Brighton Marine (PGB)	30.00%	30.00%
Block 3A	20.13%	20.13%
NCMA 4	20.00%	20.00%
Rio Claro Block	20.00%	20.00%
Ortoire Block	20.00%	20.00%
St. Mary's Block	20.00%	20.00%
NCMA Block 9 – Offshore	19.50%	19.50%
South East Coast Consortium	16.00%	16.00%
Teak, Samaan, Poui (TSP)	15.00%	15.00%
Block 22	10.00%	10.00%

These joint operations are involved in the exploration for and production of crude oil and natural gas. They represent unincorporated, jointly controlled operations. The Company's interest in the assets, liabilities, income, losses and expenditures of these ventures is included in the relevant components of the Company's separate financial statements, except for assets of Block 3A, NCMA 4 and Block 22, which are classified as held for sale (Note 19).

## HERITAGE PETROLEUM COMPANY LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

(Presented in Thousands of Trinidad And Tobago Dollars)

(Continued)

#### **33. Subsequent events**

- a.* The letter of credit established to meet Heritage's 15% share of its abandonment liability with respect to its TSP Joint Interest was increased to US\$23,112 (TT equivalent \$156,263) effective 31 December 2020. See Note 30 (b).
- b.* Subsequent to year end, crude prices have averaged US\$48/barrel up to January 2021 compared to US\$38/barrel for the six months ended 30 September 2020.
- c.* On 30 October 2020, Trinidad Northern Areas Limited (TNA) was struck off the Companies Register.
- d.* The Company entered into a Sale and Purchase Agreement for 100% of its interest in Block 3A with NGC Caribbean Investments Limited. The transaction was completed on 31 December 2020. See Note 19.
- e.* On 18 February 2021, a new exploration and production licence was issued in the offshore acreage covering 97,000 hectares. This new licence combines the entire acreage of both the previous Trinmar Licensed Area and the North Marine Licensed Area. This licence is for a six (6) year period. Heritage entered a farm in arrangement with EOG Resources Trinidad Limited (EOG) for 14,000 hectares in the southern region of the Trinidad Northern Areas (TNA) Block. In this arrangement EOG is the operator and will hold a 65% participating interest with Heritage retaining the remaining 35%.
- f.* On 26 March 2021, the board approved the inclusion of NCMA 9 and the Company's interest in PFLE as part of the Colibri divestment (see Note 19). A further impairment loss of \$118,417 was recorded on this divestment in the subsequent period.