

**HERITAGE PETROLEUM COMPANY LIMITED
AND ITS SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 SEPTEMBER 2022

(Presented in Thousands of Trinidad and Tobago Dollars)

Ernst & Young Services Limited



HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2022

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM GROUP LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Heritage Petroleum Group Limited (“the Group”), which comprise the consolidated statement of financial position as at 30 September 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 September 2022 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

Key audit matters are those matters that in our professional judgment were of most significance in our audit of the consolidated financial statements of the current year. These matters are addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinions thereon, and we do not provide a consolidated opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements
(Continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
<p>Estimation of decommissioning and restoration provisions</p> <p>Provisions associated with decommissioning and future restoration cost recognised by the Group are disclosed in Note 23 to the consolidated financial statements.</p> <p>The total decommissioning liability as at 30 September 2022 was \$5,430 million (2021: \$4,608 million) discounted.</p> <p>The calculation of decommissioning provision is performed by specialists and requires the use of significant judgment in the application of key assumptions in respect of asset lives, timing of restoration work being undertaken, the extent of restoration activities required and estimation of future costs. Changes in these assumptions may result in material changes to the decommissioning provision recorded by the Group and as a result is considered a key audit matter.</p>	<p>Our audit procedures focused on the evaluation and assessment work of the Group’s internal and external specialists.</p> <p>In obtaining sufficient audit evidence, we:</p> <ul style="list-style-type: none"> • assessed the competence and objectivity of both the Group’s internal and external specialists involved in the estimation process; • assessed the reasonableness of the assumptions utilized by the specialists in the determination of the provisions; • understood the Group’s decommissioning and restoration estimation processes; • tested the consistency in the application of principles and assumptions to other areas of the audit such as reserves estimation and impairment testing; • tested the mathematical accuracy of the net present value calculations and discount rate applied; • reconciled the calculations to the financial report prepared by internal and external specialists; and • reviewed the adequacy of the disclosures in the consolidated financial statements

INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements

(Continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
<p>Impairment of oil exploration producing assets</p> <p>The impairment assessment method adopted by the Group in determining the recoverable amount of the producing assets is value in use (VIU) as prescribed by IAS 36 ‘Impairment of Assets’.</p> <p>Management recorded an impairment charge of \$68.4 million (2021: \$58.7million) related to the exploration on joint ventures, onshore and offshore fields. Management’s impairment assessment was determined by the analysis of available data and other qualitative factors.</p> <p>There is a significant level of management judgment and estimation uncertainty in the VIU model as well as the analysis of data and other qualitative factors which make impairment of oil exploration and producing properties a key audit matter.</p>	<p>We obtained an understanding of the process related to impairment testing. We assessed data used in the Value in Use (VIU) model, including testing of the forecasted future cash flows.</p> <p>We assessed management’s determination of the relevant Cash Generating Units (CGUs) taking into consideration how management monitors and makes decisions about the Group’s operations.</p> <p>Further we analyzed the sensitivity of key assumptions used in the valuation model and assessed historical accuracy of cash flows applied by management. We tested the mathematical accuracy of the models and assessed the assumptions utilized through the following substantive procedures:</p> <p>Prices</p> <ul style="list-style-type: none"> • We agreed the relevant marker price for each index to the reports directly from third party sources; • We assessed whether the assumptions used in the calculations were in line with the contracts where applicable. In other instances, we understood management’s offset/discount applied to marker prices relative to historical trends. and did a reasonableness test on the pricing utilized in the VIU model; • We reviewed the mathematical accuracy of the formulas for each component of the model for all years in the calculation.



INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements
(Continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
<p>Impairment of oil exploration producing assets (continued)</p>	<p>Discount Rate</p> <ul style="list-style-type: none"> • We independently evaluated the Group’s discount rate used in the impairment tests with input from EY’s valuation specialists. <p>Reserves Estimate</p> <ul style="list-style-type: none"> • Assessed the Group’s reserves estimation methods and policies; • We compared total reserves included in the impairment assumptions model to the reserves as per the audited reserves report; • We held discussions with management and their external expert to understand the production profile and evaluated whether it was consistent with our knowledge of the business activity. <p>Expenditure Forecast</p> <ul style="list-style-type: none"> • We held discussions with management to understand the plan for the Group and source of funding to be implemented to maintain and grow production; • We reviewed the opex expenditure forecasted relative to historical trends to determine the reasonableness of the assumptions.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements (Continued)

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

Report on the Audit of the Consolidated Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

The engagement partner in charge of the audit resulting in the independent auditor's report is Andrew Tom.

Port of Spain,
TRINIDAD:
28 April 2023

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

(Presented in Thousands of Trinidad and Tobago Dollars)

Assets	Notes	2022	2021
		\$	\$
<i>Non-current assets</i>			
Oil and gas properties and exploration and evaluation assets	5	4,527,884	4,013,896
Other property, plant and equipment and intangible assets	6	685,837	659,026
Right of use assets	7	37,302	7,497
Other non-current financial assets	11	7,428	35,317
Due from related parties	16	9,534,921	–
Cash in escrow	12	314,287	290,446
Deferred tax assets	13	<u>1,757,203</u>	<u>1,739,394</u>
		<u>16,864,862</u>	<u>6,745,576</u>
<i>Current assets</i>			
Inventories	14	328,467	317,162
Trade and other receivables	15	517,050	524,468
Due from related parties	16	1,050,470	1,933,908
Restricted cash - debt service reserve	8	177,198	177,276
Income taxes recoverable	10	3,294	177
Other current financial assets	11	27,445	7,196
Short-term investment	17	13,062	156,284
Cash and cash equivalents	18	<u>2,041,852</u>	<u>2,070,986</u>
		4,158,838	5,187,457
Assets held for sale	19	<u>–</u>	<u>300,314</u>
		<u>4,158,838</u>	<u>5,487,771</u>
Total assets		<u>21,023,700</u>	<u>12,233,347</u>

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

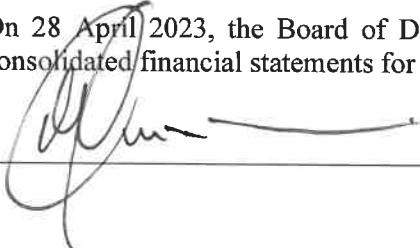
HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022
(Presented in Thousands of Trinidad and Tobago Dollars)
(Continued)

	Notes	2022 \$	2021 \$
<i>Equity attributable to owners of the parent</i>			
<i>Capital and reserves</i>			
Stated capital	20	—	—
Retained earnings		3,627,163	3,110,904
Consolidated reserve	26	(237,366)	(237,366)
Currency translation differences	21	<u>(157,593)</u>	<u>(148,479)</u>
		3,232,204	2,725,059
Non-controlling interests		<u>(63,444)</u>	<u>(60,456)</u>
Total equity		<u>3,168,760</u>	<u>2,664,603</u>
<i>Non-current liabilities</i>			
Trade and other payables	22	60,632	34,953
Decommissioning provision	23	5,429,905	4,608,446
Lease liabilities	7	39,180	7,103
Borrowings	24	6,280,722	—
Deferred tax liabilities	13	<u>2,467,403</u>	<u>2,339,417</u>
		14,277,842	6,989,919
<i>Current liabilities</i>			
Trade and other payables	22	933,833	723,463
Lease liabilities	7	1,067	1,853
Income tax liability		593,000	495,940
Due to related parties	16	949,362	520,778
Borrowings	24	499,836	321,139
Dividend proposed	25	<u>600,000</u>	—
		3,577,098	2,063,173
Liabilities directly associated with the assets held for sale	19	<u>—</u>	<u>515,652</u>
		3,577,098	2,578,825
Total liabilities		<u>17,854,940</u>	<u>9,568,744</u>
Total equity and liabilities		<u>21,023,700</u>	<u>12,233,347</u>

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

On 28 April 2023, the Board of Directors of Heritage Petroleum Company Limited authorised these consolidated financial statements for issue.


Director


Director

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2022
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	2022 \$	2021 \$
Revenue from contracts with customers	27	10,160,394	6,827,022
Cost of sales	28	<u>(6,612,570)</u>	<u>(4,419,031)</u>
Gross profit		3,547,824	2,407,991
Other operating income	29	433,079	27,545
Impairment on oil and gas properties and exploration and evaluation assets	5	(68,436)	(58,769)
Administrative expenses	28	<u>(211,477)</u>	<u>(179,390)</u>
Operating profit		3,700,990	2,197,377
Share of loss of associates accounted for using the equity method, net of tax		–	(357)
Net finance costs	30	<u>(441,819)</u>	<u>(241,965)</u>
Profit before taxation		3,259,171	1,955,055
Taxation expense	32	<u>(2,145,900)</u>	<u>(1,272,374)</u>
Profit for the year		1,113,271	682,681
Other comprehensive income			
<i>Items that would not be reclassified to profit or loss</i>			
Currency translation differences		<u>(9,114)</u>	<u>(31,738)</u>
Total comprehensive income for the year		<u>1,104,157</u>	<u>650,943</u>

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 SEPTEMBER 2022
 (Presented in Thousands of Trinidad and Tobago Dollars)
 (Continued)

	2022	2021
	\$	\$
Profit attributable to:		
Equity holders of the parent	1,116,259	682,837
Non-controlling interests	<u>(2,988)</u>	<u>(156)</u>
	<u>1,113,271</u>	<u>682,681</u>
Total comprehensive income attributable to:		
Equity holders of the parent	1,107,145	651,029
Non-controlling interests	<u>(2,988)</u>	<u>(86)</u>
	<u>1,104,157</u>	<u>650,943</u>

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

(Presented in Thousands of Trinidad and Tobago Dollars)

	Stated capital \$	Retained earnings \$	Consolidated reserve \$	Currency translation differences \$	Non- controlling interests \$	Total \$
Year ended 30 September 2022						
Balance at 1 October 2021	–	3,110,904	(237,366)	(148,479)	(60,456)	2,664,603
Profit for the year	–	1,116,259	–	–	(2,988)	1,113,271
Other comprehensive loss for the year	–	–	–	(9,114)	–	(9,114)
Total comprehensive income for the year	–	1,116,259	–	(9,114)	(2,988)	1,104,157
Dividend proposed (Note 25)	–	(600,000)	–	–	–	(600,000)
Balance as at 30 September 2022	–	<u>3,627,163</u>	<u>(237,366)</u>	<u>(157,593)</u>	<u>(63,444)</u>	<u>3,168,760</u>
Year ended 30 September 2021						
Balance at 1 October 2020	–	2,428,067	(237,366)	(116,671)	(60,370)	2,013,660
Profit for the year	–	682,837	–	–	(156)	682,681
Other comprehensive income/(loss) for the year	–	–	–	(31,808)	70	(31,738)
Total comprehensive income for the year	–	<u>682,837</u>	–	<u>(31,808)</u>	<u>(86)</u>	<u>650,943</u>
Balance as at 30 September 2021	–	<u>3,110,904</u>	<u>(237,366)</u>	<u>(148,479)</u>	<u>(60,456)</u>	<u>2,664,603</u>

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2022
(Presented in Thousands of Trinidad and Tobago Dollars)

	Notes	2022 \$	2021 \$
Operating activities			
Profit before taxation		3,259,171	1,955,055
Adjustments to reconcile profit to net cash from operating activities:			
Depreciation, depletion and amortisation	5, 6, 7	423,446	493,789
Impairment on oil and gas properties	5	68,436	58,769
(Gain)/loss on disposal	19	(412,343)	349
Change in decommissioning provision	23	93,443	(19,752)
Finance cost – unwinding of decommissioning provision	23	192,614	240,287
Finance cost – leases	7	2,081	540
Finance income		(202)	(415)
Dividend income		(60)	–
Interest expense on borrowings		78,641	–
Working capital changes			
Supplemental petroleum tax		1,472,732	293,626
Increase in cash in escrow	12	(23,841)	(23,348)
Increase in inventory	14	(11,305)	(7,152)
Decrease/(increase) in trade and other receivables	15	7,418	(199,389)
Increase in due from related parties		(192,250)	(127,644)
Increase in due to related parties		226,595	379,893
Increase in trade and other payables	22	<u>236,049</u>	<u>142,486</u>
		5,420,625	3,187,094
Taxes paid		<u>(3,414,513)</u>	<u>(293,626)</u>
Net cash generated from operating activities		<u>2,006,112</u>	<u>2,893,468</u>
Investing activities			
Change in investment		–	357
Repayment on advances	11 a)	7,196	11,965
Investment in financial assets	11 c)	–	(7,872)
Purchase of shares	11 d)	(7,428)	–
Purchase of investment	17	(13,062)	–
Proceeds from disposal of asset held for sale	19	195,336	307,246
Investment in assets held for sale	19	–	(267,597)
Dividend income		60	–
Purchase of oil and gas properties and exploration and evaluation assets	5	(387,742)	(164,517)
Purchase of other property, plant and equipment and intangible assets	6	<u>(96,401)</u>	<u>(66,016)</u>
Net cash used in investing activities		<u>(302,041)</u>	<u>(186,434)</u>

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 SEPTEMBER 2022
 (Presented in Thousands of Trinidad and Tobago Dollars)
 (Continued)

	Notes	2022 \$	2021 \$
Financing activities			
Cash payment on leases	7	(12,639)	(2,052)
Change in debt service reserve	8	78	416
Short term investment	17	156,803	–
Interest paid on borrowings		(78,641)	–
Proceeds from borrowings		6,560,288	–
Transaction costs from borrowings		(96,995)	–
Net movement in related parties		<u>(8,257,244)</u>	<u>(1,734,486)</u>
Net cash used in financing activities		<u>(1,728,350)</u>	<u>(1,736,122)</u>
Currency translation differences relating to cash and cash equivalents		(4,855)	(657)
Net (decrease)/increase in cash and cash equivalents		(24,279)	970,912
Cash and cash equivalent at the beginning of the year		<u>2,070,986</u>	<u>1,100,731</u>
Cash and cash equivalents, at end of year	18	<u>2,041,852</u>	<u>2,070,986</u>

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2022 (Presented in Thousands of Trinidad and Tobago Dollars)

1. Incorporation and principal activity

Heritage Petroleum Company Limited (“Heritage”) 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 registered office is 9 Queen’s Park West, Port of Spain, Trinidad and Tobago, West Indies. Heritage Petroleum Company Limited and its consolidated subsidiary (“the Group”) operate in Trinidad and Tobago and the United Kingdom. The Group’s subsidiary is detailed in Note 9.

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.

2. Basis of preparation and other significant accounting policies

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

a. Basis of preparation

(i) Compliance with IFRS

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

(ii) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group 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 Group for the foreseeable future, being a period of at least twelve months from the reporting date of the consolidated financial statements.

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2022

(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)

Subsequent to 30 September 2022, a non-compliance event with a negative covenant in the Credit Agreement triggered an Event of Default (“EOD”) under this Agreement for the reporting period ended 31 December 2022. This EOD relates to the non-compliance with certain financial ratios. In addition, the Borrower 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 has continued to occur.

It should be noted that the EOD under the Credit Agreement were not debt service or payment related defaults, as the Group continues to make all interest and principal payments under the terms of the Credit Agreement.

The Directors and management have addressed such defaults by applying to the Lenders for waivers and certain permanent amendments to the Credit Agreement which were all granted on 24 March 2023. These consolidated financial statements have therefore been prepared on the going concern basis.

In addition, the Directors have obtained a letter of financial support from its ultimate shareholder, which can be called upon if needed to meet its legal and financial obligations as they fall due.

(iii) Historical cost convention

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

HERITAGE PETROLEUM COMPANY LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2022

(Presented in Thousands of Trinidad and Tobago Dollars)

(Continued)

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

a. Basis of preparation (continued)

(iv) New and amended standards and interpretations

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective 1 January 2021)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred.

The amendments are mandatory, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the phase two amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

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 Group's consolidated financial statements are disclosed below.

The Group is currently assessing the potential impact of these new standards and interpretations and will adopt them when they become effective.

- Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework - effective 1 January 2022
- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before intended use - effective 1 January 2022
- Amendment to IAS 37 Provision, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of fulfilling a contract - effective 1 January 2022
- IAS 1 Presentation of Financial Statements - Amendments to IAS 1 - 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 and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 - Amendments to IAS 1 - effective 1 January 2023
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Amendments to IAS 8 - effective 1 January 2023
- IAS 12 Income Taxes - Amendments to IAS 12 - effective 1 January 2023

Improvement 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 have resulted in no material change to the consolidated financial statements.

IFRS	Subject of Amendment
IFRS 1 -	First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter - effective 1 January 2022
IFRS 9 -	Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities - effective 1 January 2022

b. Foreign currency translation

(i) Functional and presentation currency

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

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(Continued)

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

b. Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statement of comprehensive income. They are deferred in equity if it is attributable to part of the net investment in a foreign operation.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 consolidated 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.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

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(Continued)

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

c. Current versus non-current classification

The Group presents assets and liabilities in the consolidated 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 Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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(Continued)

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

d. Fair value measurement

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:

- 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 Group.

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 Group 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 consolidated 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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group 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 Group 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.

i) Financial assets

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 classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

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(Continued)

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

e. Financial assets and financial liabilities (continued)

i) Financial assets (continued)

Financial assets at amortised cost

The Group 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.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables, due from related parties, other financial assets and short-term investments. There are no financial assets measured at fair value through profit or loss or fair value through other comprehensive income.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Significant accounting judgements assumptions Note 3
- Trade receivables Note 15

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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(Continued)

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

e. Financial assets and financial liabilities (continued)

ii) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs

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

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss (there were no liabilities at fair value through profit or loss).
- Financial liabilities at amortised cost (borrowings).

Financial liabilities at amortised cost (borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income. .

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 24.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2022 and 2021.

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(Continued)

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

e. Financial assets and financial liabilities (continued)

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 that the Group could be required to repay.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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 consolidated statement of comprehensive income.

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

g. Leases (Note 7 a)

h. Deferred income tax (Note 13 a)

i. Inventory (Note 14 a)

j. Trade and other receivables (Note 15 a)

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(Continued)

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

k. *Short-term investment (Note 17 a)*

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

m. *Stated capital (Note 20 a)*

n. *Trade and other payables (Note 22 a)*

o. *Decommissioning provision (Note 23 a)*

p. *Borrowings (Note 24 a)*

q. *Revenue from contracts with customers (Note 27 a)*

r. *Principles of consolidation and equity accounting*

Investments – Subsidiary and interest in equity-accounted investees

(i) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of Heritage Petroleum Company Limited and its subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to effect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to effect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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(Continued)

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

r. Principles of consolidation and equity accounting (continued)

Investments – Subsidiaries and interest in equity-accounted investees (continued)

(i) Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of comprehensive income. . Any investment retained is recognised at fair value.

Refer to Note 9 for the details on the Group's subsidiary. Non-controlling interests represent the interests not held by the Group in Trinidad and Tobago Marine Petroleum Company Limited (Trintomar).

(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.

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 consolidated financial statements under the appropriate headings. Details of the joint operation are set out in Note 35.

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(Continued)

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management Note 4
- Financial instruments risk management and policies Note 4

The areas involving significant estimates, judgements and assumptions 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 23
- Borrowing costs – Note 24
- Revenue recognition – Note 27
- Income taxes – Note 32

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

4. Financial instruments risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds short-term investments in financial instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors and the executive management reviews and agrees policies for managing each of these risks, which are summarised below

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4. Financial instruments risk management objectives and policies (continued)

The Group has exposure to the following risks:

a. Credit risk

The Group is exposed to credit risk, which is the risk that its customers and counterparties may cause a financial loss by failing to discharge their contractual obligations. Credit risk arises from cash and cash equivalents 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 Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB' are accepted. Cash and deposits are held with a number of reputable financial institutions, in amounts varying between \$600 and \$723,990. (2021: \$500 and \$1,237,000).

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 Group has some concentration of credit risk as the majority of receivables are from several large customers. However, this risk is minimised as the Group maintains formal contracts with each of these customers that stipulate invoicing and payments terms. Additionally, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. Exposure to credit risk is disclosed below.

(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:

	2022	2021
	\$	\$
<i>Cash and cash equivalents</i>	<u>2,041,852</u>	<u>2,070,986</u>

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(Continued)

4. Financial instruments risk management objectives and policies (continued)

The Group has exposure to the following risks: (continued)

a. Credit risk (continued)

(iii) Exposure to credit risk

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

30 September 2022	Fully performing	Past due	Impaired	Provision for impairment	Total
	\$	\$	\$	\$	\$
Cash in escrow	314,287	–	–	–	314,287
Other financial assets	34,873	–	–	–	34,873
Short-term investment	13,062	–	–	–	13,062
Cash and cash equivalents	2,041,852	–	–	–	2,041,852
Trade receivables (Note 15)	31,817	–	668	(668)	31,817
Due from related parties	422,176	10,163,215	–	–	10,585,391
Accrued revenue (Note 15)	428,911	–	–	–	428,911
Other receivables (excluding prepayments)	<u>31,040</u>	<u>–</u>	<u>879</u>	<u>(879)</u>	<u>31,040</u>
	<u>3,318,018</u>	<u>10,163,215</u>	<u>1,547</u>	<u>(1,547)</u>	<u>13,481,233</u>
30 September 2021					
Cash in escrow	290,446	–	–	–	290,446
Other financial assets	42,513	–	–	–	42,513
Short-term investment	156,284	–	–	–	156,284
Cash and cash equivalents	2,070,986	–	–	–	2,070,986
Trade receivables (Note 15)	2,026	–	668	(668)	2,026
Accrued revenue (Note 15)	380,570	–	–	–	380,570
Due from related parties	254,860	1,679,048	–	–	1,933,908
Other receivables (excluding prepayments)	<u>120,514</u>	<u>–</u>	<u>578</u>	<u>(578)</u>	<u>120,514</u>
	<u>3,318,199</u>	<u>1,679,048</u>	<u>1,246</u>	<u>(1,246)</u>	<u>4,997,247</u>

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

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

The Group uses the simplified approach for trade receivables in arriving at expected credit losses (ECL).

No ECL is applicable on balances due from related party as the Group expects to recover the full amount of this receivable. Refer to Note 16.

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(Continued)

4. Financial instruments risk management objectives and policies (continued)

a. Credit risk (continued)

(iii) Exposure to credit risk (continued)

The simplified approach

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments, even after several attempts at enforcement and/or recovery efforts. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the consolidated statement of comprehensive income.

Summary of ECL calculations

The simplified approach (trade receivables)

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

- Specific provisions
- General provisions using a standardised provision matrix

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4. Financial risk management (continued)

a. Credit risk (continued)

(iii) Exposure to credit risk (continued)

Summary of ECL calculations (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%	31,817	–
31 to 60 days	0%	–	–
61 to 90 days	0%	–	–
Over 90 days	100%	668	668
Accrued revenue	0%	428,911	–
		2022	2021
		\$	\$
Opening loss allowance as at 1 October – calculated under IFRS 9		(1,046)	(576)
Current year provision		<u>(501)</u>	<u>(470)</u>
Balance as at 30 September		<u>(1,547)</u>	<u>(1,046)</u>
The following is an analysis of the net impairment expense on financial assets recognised in the consolidated statement of comprehensive income::			
Net changes to provisions for the period per above		<u>501</u>	<u>470</u>

b. Liquidity risk

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

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

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

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(Continued)

4. Financial risk management (continued)

b. Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated 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 Group's financial liabilities based on contractual undiscounted payments:

	Up to 1 year \$	1 – 5 years \$	> 5 years \$	Total \$
30 September 2022				
Trade payables	81,671	–	–	81,671
Lease liabilities	13,429	26,200	3,372	43,001
Due to related parties (excluding statutory liabilities)	211,012	–	–	211,012
Accruals and other liabilities	852,162	–	60,632	912,794
Borrowings	<u>867,963</u>	<u>2,837,649</u>	<u>6,314,044</u>	<u>10,019,656</u>
Total	<u>2,026,237</u>	<u>2,863,849</u>	<u>6,378,048</u>	<u>11,268,134</u>
30 September 2021				
Trade payables	60,040	–	–	60,040
Lease liabilities	2,474	4,062	3,372	9,908
Due to related parties (excluding statutory liabilities)	15,928	–	–	15,928
Borrowings	321,139	–	–	321,139
Accruals and other liabilities	<u>663,423</u>	<u>–</u>	<u>34,953</u>	<u>698,376</u>
Total	<u>1,063,004</u>	<u>4,062</u>	<u>38,325</u>	<u>1,105,391</u>

c. Market risk

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

(i) Foreign currency risk

Foreign currency 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 currency risk (continued)

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

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

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

	As at 2022	As at 2021
	30 September	30 September
Year-end	6.73295	6.74655
Average rate during the year	6.75592	6.75455

Translational exposure in respect of non-functional currency monetary items

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

	As at 30 September 2022		
	TT\$	US\$	Total
	\$	\$	\$
Assets			
Trade and other receivables (excluding prepayments)	5,329	486,439	491,768
Due from related parties	1,192,919	9,392,472	10,585,391
Cash in escrow	–	314,287	314,287
Short-term investment	–	13,062	13,062
Other financial assets	34,873	–	34,873
Cash and cash equivalents	<u>493,200</u>	<u>1,548,652</u>	<u>2,041,852</u>
Financial assets	<u>1,726,321</u>	<u>11,754,912</u>	<u>13,481,233</u>

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(Continued)

4. Financial risk management (continued)

c. Market risk (continued)

(ii) Price risk

The Group 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 Group 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 Group does not currently have any such hedging instruments in place.

Commodity price risk

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

The Group currently does not operate a hedge for its crude as all of the Group's crude is sold on a spot basis. While the Group's crude revenue is subject to international market price movements, the Group'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.

	Change in year-end price	Effect on profit before tax	Effect on equity
2022	%/barrel	'000	'000
Crude	+15%	790,001	355,500
	-15%	(790,001)	(355,500)
2021			
Crude	+15%	524,363	235,693
	-15%	(524,363)	(235,693)

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(Continued)

4. Financial risk management (continued)

d. Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the oil and gas industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) and trade and other payables less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. Gearing is the measure of financial leverage, demonstrating the degree to which the Group's activities are funded by owner's funds versus creditor's funds.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings that form part of its capital structure requirements. Breaches in the financial covenants would permit the bank to immediately call on the borrowings. There have been no breaches in the financial covenants of any borrowings in the current period.

	2022	2021
	\$	\$
Borrowings	6,780,558	321,139
Trade and other payables	994,465	758,416
Less: Cash and cash equivalents	<u>(2,041,852)</u>	<u>(2,070,986)</u>
Net debt	5,733,171	–
Equity	<u>3,232,204</u>	<u>2,725,059</u>
Capital and net debt	<u>8,965,375</u>	<u>2,725,059</u>
Gearing ratio	64%	–%

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4. Financial risk management (continued)

e. Financial instruments by category

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

	2022	2021
	\$	\$
<i>Financial assets</i>		
Trade receivables	31,817	2,026
Accrued revenue	428,911	380,570
Other receivables (excluding prepayments)	31,040	120,514
Other non-current financial assets	7,428	35,317
Other current financial assets	27,445	7,196
Due from related parties	10,585,391	1,933,908
Cash in escrow	314,287	290,446
Short-term investments	13,062	156,284
Debt service reserve	177,198	177,276
Cash at bank and on hand	<u>2,041,852</u>	<u>2,070,986</u>
	<u>13,658,431</u>	<u>5,174,523</u>
<i>Financial liabilities</i>		
Borrowings	6,780,558	321,139
Trade and other payables	994,465	758,416
Lease liabilities	40,247	8,956
Due to related parties (excluding statutory liabilities)	<u>211,012</u>	<u>15,928</u>
	<u>8,026,282</u>	<u>1,104,439</u>

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5. Oil and gas properties and exploration and evaluation assets

	Exploration and evaluation \$	Oil and gas properties \$	Dismantlement asset \$	Total \$
Cost				
At 30 September 2020	88,650	5,742,948	–	5,831,598
Additions	26,845	137,672	–	164,517
Transferred from exploration and evaluation	(24,322)	24,322	–	–
Transferred to held for sale assets (Note 19)	–	(45,410)	–	(45,410)
Change in decommissioning provision (Note 23)	–	(300,938)	2,792	(298,146)
Exchange differences	<u>(332)</u>	<u>(156,429)</u>	<u>–</u>	<u>(156,761)</u>
At 30 September 2021	<u>90,841</u>	<u>5,402,165</u>	<u>2,792</u>	<u>5,495,798</u>
Additions	5,136	382,606	–	387,742
Transferred to held for sale assets (Note 19)	–	1,294	–	1,294
Change in decommissioning provision (Note 23)	–	545,093	–	545,093
Exchange differences	<u>(109)</u>	<u>(138,457)</u>	<u>–</u>	<u>(138,566)</u>
At 30 September 2022	<u>95,868</u>	<u>6,192,701</u>	<u>2,792</u>	<u>6,291,361</u>
Depletion and impairment				
At 30 September 2020	–	(1,126,166)	–	(1,126,166)
Depreciation charge for the year (Note 28)	–	(423,154)	–	(423,154)
Provision for impairment (Note 5 (a))	–	(58,769)	–	(58,769)
Exchange differences	<u>–</u>	<u>126,187</u>	<u>–</u>	<u>126,187</u>
At 30 September 2021	<u>–</u>	<u>(1,481,902)</u>	<u>–</u>	<u>(1,481,902)</u>
Depreciation charge for the year (Note 28)	–	(340,595)	(2,792)	(343,387)
Provision for impairment (Note 5 (a))	–	(68,436)	–	(68,436)
Exchange differences	<u>–</u>	<u>130,248</u>	<u>–</u>	<u>130,248</u>
At 30 September 2022	<u>–</u>	<u>(1,760,685)</u>	<u>(2,792)</u>	<u>(1,763,477)</u>
Net book value:				
At 30 September 2021	<u>90,841</u>	<u>3,920,263</u>	<u>2,792</u>	<u>4,013,896</u>
At 30 September 2022	<u>95,868</u>	<u>4,432,016</u>	<u>–</u>	<u>4,527,884</u>

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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 - License and property acquisition costs are capitalised within intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit. Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.
- Exploration and evaluation expenditure - activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors. 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 are charged during the exploration and evaluation phase.

Exploration and evaluation assets – Impairment

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

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

a. Accounting policy (continued)

(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.

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 consolidated statement of comprehensive income.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling and development of 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.

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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)

Depreciation, amortisation and depletion (continued)

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated 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.

(iii) Impairment

The Group 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 Group estimates the assets or CGU's recoverable amount. The recoverable amount is the higher of an assets 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.

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

a. Accounting policy (continued)

(iii) Impairment (continued)

The Group 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 license 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 2% (2021: 2%) and 3% (2021: 3%) respectively, with a discount rate of 11.26% (2021: 7.89%).

Impairment losses of continuing operations, including impairment of inventories, are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset. For assets/CGUs excluding goodwill, 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 Group 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 consolidated statement of comprehensive income.

During the year ended 30 September 2022, impairment losses on oil and gas properties assets totalling \$68,436 (2021: \$58,769) were recognised.

The impairment review determined that the commercial viability of the fields noted below has decreased and as a result, an impairment loss was recognised in the consolidated statement of comprehensive income for \$68,436 (2021: \$58,769), net of reversals.

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

a. Accounting policy (continued)

(iii) Impairment (continued)

The fields showing impairment were as follows:	2022	2021
	\$	\$
Impairment loss:		
Teak, Samaan, Poui (TSP)	35,173	–
EOG 16%	37,846	58,284
Moruga West	–	15,476
Central Block	<u>–</u>	<u>4,583</u>
Total impairment loss	73,019	78,343
Reversal of impairment loss:		
Teak, Samaan, Poui (TSP)	–	(10,651)
Galeota	–	(6,438)
Point Ligoure, Guapo Bay, Brighton Marine (PGB)	–	(2,485)
Central Block	<u>(4,583)</u>	<u>–</u>
Net impairment loss	<u>68,436</u>	<u>58,769</u>

The reversal of impairment loss is in relation to the following:

Central Block

Extension of the Central Block Licence for another 5 years resulted in the Group's ability to add reserves to the end of the new licence period.

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 11.26% (2021: 7.89%).

b. Assets pledged as security

There is no property, plant and equipment pledged as security by the Group.

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

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

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

Estimated proved reserves are used in determining depletion and impairment expenses. Depletion rates on oil and gas assets using the unit-of-production (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 and probable 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.

d. Licences

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

Field Name	Terms of Agreement
Balata East Shallow Horizon	Effective period from 2006 for twenty-five (25) years
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
TNA Licence	Effective period from 2021 for six (6) years

The Group'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

Cost	Land and buildings \$	Other plant and equipment \$	Software assets \$	Total \$
At 30 September 2020	<u>391,379</u>	<u>338,069</u>	<u>41,288</u>	<u>770,736</u>
Additions	2,098	16,263	47,655	66,016
Exchange differences	<u>(880)</u>	<u>(9,279)</u>	<u>(158)</u>	<u>(10,317)</u>
At 30 September 2021	392,597	345,053	88,785	826,435
Additions	21,201	52,274	22,926	96,401
Exchange differences	<u>(127)</u>	<u>(447)</u>	<u>(70)</u>	<u>(644)</u>
At 30 September 2022	<u>413,671</u>	<u>396,880</u>	<u>111,641</u>	<u>922,192</u>
Depreciation and amortisation				
At 30 September 2020	(25,458)	(63,165)	(8,502)	(97,125)
Depreciation charge for the year (Note 28)	(13,020)	(48,829)	(6,880)	(68,729)
Exchange differences	<u>(738)</u>	<u>(636)</u>	<u>(181)</u>	<u>(1,555)</u>
At 30 September 2021	(39,216)	(112,630)	(15,563)	(167,409)
Depreciation charge for the year (Note 28)	(13,289)	(44,324)	(10,489)	(68,102)
Exchange differences	<u>(613)</u>	<u>(90)</u>	<u>(141)</u>	<u>(844)</u>
At 30 September 2022	<u>(53,118)</u>	<u>(157,044)</u>	<u>(26,193)</u>	<u>(236,355)</u>
Net book value:				
At 30 September 2021	<u>353,381</u>	<u>232,423</u>	<u>73,222</u>	<u>659,026</u>
At 30 September 2022	<u>360,553</u>	<u>239,836</u>	<u>85,448</u>	<u>685,837</u>

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

a. Accounting policy

(i) Other property, plant and equipment

Other property, plant and equipment are stated at historical cost net of accumulated depreciation and accumulated impairment losses except for land which 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. Furniture and fixtures, and domestic appliances fall under the category of the other plant and equipment.

Buildings	5% - diminishing balance
Furniture and fixtures	20% - diminishing balance
Domestic appliances	20% - straight line

The expected useful lives of the other 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 assets

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).

Software assets:	
Computer equipment (specialised)	10% - straight line
Computer equipment (non-specialised)	33.3% - straight line

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 Group has lease contracts for land and building rentals, and office equipment used in its operations. Leases for office equipment generally have lease terms between 1 and 3 years. The building leases are for two years and the land lease is for a period of 11 years. The vehicle leases are for a period of 4 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group also has certain leases of office equipment and vehicles with lease terms of 12 months or less. The Group 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 consolidated statement of financial position shows the following carrying amounts of right-of-use and lease liabilities and the movements during the period:

Right of Use Assets	Air conditioning		Fleet	Total
	Land	units	vehicles	
	\$	\$	\$	\$
As at 30 September 2020	5,974	557	–	6,531
Additions	1,884	988	–	2,872
Less: Depreciation (Note 28)	<u>(1,298)</u>	<u>(608)</u>	<u>–</u>	<u>(1,906)</u>
As at 30 September 2021	6,560	937	–	7,497
Additions	–	–	41,849	41,849
Less: Depreciation (Note 28)	(1,431)	(786)	(9,740)	(11,957)
Exchange loss	<u>(87)</u>	<u>–</u>	<u>–</u>	<u>(87)</u>
As at 30 September 2022	<u>5,042</u>	<u>151</u>	<u>32,109</u>	<u>37,302</u>
Lease liabilities				
As at 30 September 2020	7,030	573	–	7,603
Additions	1,884	988	–	2,872
Interest expense (Note 30)	492	48	–	540
Payments	(1,826)	(226)	–	(2,052)
Exchange loss	<u>(7)</u>	<u>–</u>	<u>–</u>	<u>(7)</u>
As at 30 September 2021	7,573	1,383	–	8,956
Additions	–	–	41,849	41,849
Interest expense (Note 30)	374	34	1,673	2,081
Payments	<u>(2,004)</u>	<u>(849)</u>	<u>(9,786)</u>	<u>(12,639)</u>
As at 30 September 2022	<u>5,943</u>	<u>568</u>	<u>33,736</u>	<u>40,247</u>
			2022	2021
Lease liabilities – non-current			39,180	7,103
Lease liabilities – current			<u>1,067</u>	<u>1,853</u>
Total			<u>40,247</u>	<u>8,956</u>

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7. **Leases** (continued)

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

	2022	2021
	\$	\$
Depreciation charge on ROU assets	(11,957)	(1,906)
Interest expense on lease liabilities	(2,081)	(540)
Expense relating to short-term leases (included in cost of sales)	<u>—</u>	<u>(14,399)</u>
Total amount recognized in consolidated statement of comprehensive income	<u>14,038</u>	<u>16,845</u>

The Group had total cash outflows for leases of \$12,639 in 2022 (2021: \$16,451). The Group entered into two lease contracts for a period of four years during the financial year 2022. Previously vehicle rentals were managed through short term lease arrangements and were treated as exemptions under IFRS 16.

a. *Accounting policy*

The Group 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. Payments made under operating leases were charged to the consolidated 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 Group 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 Group and payments of penalties for terminating the lease, if the lease term reflects the Group 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 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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(Continued)

7. Leases (continued)

b. Significant judgements

Determining the lease term of contracts with renewal and termination options

Group as lessee

The Group 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 Group's land lease includes an extension option. The Group 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 Group 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 Group 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. 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 Group 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 Group'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:

30 September 2022	Within five years \$	More than five years \$	Total \$
Extension options expected not to be exercised	4,196	19,303	23,499
30 September 2021	Within five years \$	More than five years \$	Total \$
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 Group 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 Group 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 Group '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 Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Group as lessor

The Group 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 Group during the year is \$988 (2021: \$902). This is included within miscellaneous rental and other income (Note 29).

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

	2022	2021
	\$	\$
Within one year	988	902
After one year but not more than five years	3,951	3,610
More than five years	<u>11,800</u>	<u>10,738</u>
Total	<u>16,739</u>	<u>15,250</u>

8. Restricted cash

As at 30 September, the balance in this account is shown below. Refer to Note 24 d (i).

	2022	2021
	\$	\$
Restricted cash - debt service reserve		
Opening amount as at 1 October	177,276	177,692
Change	<u>(78)</u>	<u>(416)</u>
Closing amount as at 30 September	<u>177,198</u>	<u>177,276</u>

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9. Subsidiary company

The Group's principal subsidiary as at 30 September 2022 is set out below. Unless otherwise stated they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

The Group's subsidiary as at 30 September 2022 consists of Trinidad and Tobago Marine Petroleum Company Limited (Trintomar).

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
		2022	2022	2021	2021
Trinidad and Tobago Marine Petroleum Company Limited (Trintomar)	Trinidad and Tobago	80%	20%	80%	20%

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.

Subsidiary	2022 \$	2021 \$
Current assets	39,941	40,093
Current liabilities	(321,340)	(321,880)
Non-current assets	423	3,232
Non-current liabilities	<u>(36,969)</u>	<u>(24,449)</u>
Net liabilities	<u>(317,945)</u>	<u>(303,004)</u>
Accumulated non-controlling interest	<u>(63,444)</u>	<u>(60,456)</u>
Other income	1,002	1,486
Operating and administrative costs	(3,303)	(1,262)
Finance costs	(960)	(1,004)
Change in decommissioning provision	(11,560)	—
Income taxes	<u>(120)</u>	<u>—</u>
Total comprehensive loss	<u>(14,941)</u>	<u>(780)</u>

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	2022	2021
	\$	\$
10. Income taxes recoverable		
Income taxes recoverable	3,294	177

The amount in 2022 represents overpayment of Petroleum Profit Taxes and Unemployment Levy for income year 2021. The amount will be utilised in income year 2023.

	2022	2021
	\$	\$
11. Other financial assets		
Non-current	7,428	35,317
Current	<u>27,445</u>	<u>7,196</u>
	<u>34,873</u>	<u>42,513</u>
Advanced Payment Bond (a)	–	7,196
Government Fixed Rate Bond (b)	27,445	27,445
Other assets (c)	–	7,872
Investment in First Citizens Bank (d)	<u>7,428</u>	<u>–</u>
Other financial assets	<u>34,873</u>	<u>42,513</u>
a) Advanced payment		
Current	<u>–</u>	<u>7,196</u>

The Group 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 Group has advanced the sum of US\$3,000 (TT equivalent \$20,288) for the commissioning of the unit which was repaid in full in financial year 2022.

	2022	2021
	\$	\$
b) Government Fixed Rate Bond due 2023		
Current	<u>27,445</u>	<u>27,445</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.

	2022	2021
	\$	\$
Fair value of Government Fixed Rate Bonds	<u>27,697</u>	<u>28,625</u>

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	2022	2021
	\$	\$
11. Other financial assets (continued)		
c) Other assets	<u>—</u>	<u>7,872</u>

Costs incurred in both the current and prior year in relation to the borrowings were capitalised as part of the total borrowings in 2022 (Refer to Note 24).

	2022	2021
	\$	\$
d) Investment in First Citizens Bank	<u>7,428</u>	<u>—</u>

This investment relates to Heritage's participation in the First Citizens Bank Limited additional public offer (APO) for the allotment of 150,848 shares. The investment is currently measured at amortized cost.

	2022	2021
	\$	\$
Fair value of investment in First Citizens Bank	<u>7,542</u>	<u>—</u>

12. Cash in escrow

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 Group fulfils all decommissioning obligations to the satisfaction of the Minister, and upon determination of the license, the Minister shall return all existing funds in the escrow account to Heritage.

(a) *Accounting policy*

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

	2022	2021
	\$	\$
Balance as at 1 October	290,446	267,098
Add: Transfer and interest	<u>23,841</u>	<u>23,348</u>
Balance as at 30 September	<u>314,287</u>	<u>290,446</u>

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13. Deferred taxation

For the years ended 30 September 2022 and 2021, deferred income tax relates to the following:

	Consolidated statement of comprehensive income		Consolidated statement of financial position	
	2022	2021	2022	2021
	\$	\$	\$	\$
Deferred tax asset				
Decommissioning provision	18,224	28,474	1,757,203	1,738,979
Losses carried forward	–	(126,410)	–	–
Exchange difference	(415)	415	–	415
Vacation accrual	–	(6,378)	–	–
	<u>17,809</u>	<u>(103,899)</u>	<u>1,757,203</u>	<u>1,739,394</u>
Deferred tax liability				
Property, plant and equipment	<u>(127,986)</u>	<u>(524,745)</u>	<u>(2,467,403)</u>	<u>(2,339,417)</u>
	<u>(127,986)</u>	<u>(524,745)</u>	<u>(2,467,403)</u>	<u>(2,339,417)</u>
Deferred income tax expense/credit (Note 32)	110,177	628,644	(710,200)	(600,023)
Deferred tax asset/liability (net)	–	–	710,200	600,023

A valuation allowance of \$1,208,277 (2021: \$1,065,893) has been recorded at 30 September 2022 in relation to the net deferred tax asset on the decommissioning provision for assets to be decommissioned between 2054 to 2072.

(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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or 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.

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(Continued)

13. Deferred taxation (continued)

(a) *Accounting policy* (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. 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 the consolidated statement of comprehensive income, 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 consolidated statement of financial position and the deferred income tax charge credit in the consolidated statement of comprehensive income as noted above.

14. Inventories	2022	2021
	\$	\$
Crude oil and natural gas	238,225	254,878
Materials and supplies	138,865	143,112
Provision for obsolescence	<u>(48,623)</u>	<u>(80,828)</u>
	<u>328,467</u>	<u>317,162</u>

During 2022, there was a reduction in the obsolescence provision resulting in a net credit of \$31,980 (2021: \$34,348) and this was recognised as a reduction in cost of sales (Note 28).

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.

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14. Inventories (continued)

a. Accounting policy (continued)

(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 and stock movement. Management determines the provision based on material items that are aged in excess of five years. Given that the items were vested and previously operated by Petrotrin (Note 1), the items in excess of five years have been provided for.

15. Trade and other receivables	2022	2021
	\$	\$
Trade receivables – gross	32,485	2,694
Other receivables – gross	31,919	121,092
Allowance for credit losses	<u>(1,547)</u>	<u>(1,246)</u>
Trade and other receivables – net	62,857	122,540
Prepayments	25,282	21,358
Accrued revenue	<u>428,911</u>	<u>380,570</u>
	<u>517,050</u>	<u>524,468</u>

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15. Trade and other receivables (continued)

The ageing analysis of trade receivables is as follows:

	Current	Days past due			Total
	\$	31 to 60 days	61 to 90 days	>90 days	\$
	\$	\$	\$	\$	\$
As at 30 September 2022	31,817	–	–	668	32,485
As at 30 September 2021	2,026	–	–	668	2,694

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 expected credit losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. Any provision for impairment is recognised in the consolidated 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 consolidated 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.
- Cash advances to Petrotrin and TPHL.
- Transfer of assets and the liabilities directly associated with those assets from Petrotrin.
- Repayment of the TPHL loan facility as discussed in Note 24.

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 Group, including executive officers and consist of the following:

	2022	2021
	\$	\$
Directors' fees (Note 28)	685	971
Short – term employee benefits	16,479	15,750
Long – term employee benefits	<u>552</u>	<u>434</u>
	<u><u>17,716</u></u>	<u><u>17,155</u></u>

b. Trade and financing transactions with related parties

Trinidad Petroleum Holdings Limited (TPHL)

– Cash advances for settlement of loan and other fees and insurance	8,359,159	1,656,637
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The Guaracara Refining Company Limited

– Storage fees	1,087	7,272
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Paria Fuel Trading Company Limited

– Processing, bunker and storage fees	62,806	64,858
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Petroleum Company of Trinidad and Tobago Limited

– Cash advances	<u>148,536</u>	<u>115,352</u>
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	<u><u>8,571,588</u></u>	<u><u>1,844,119</u></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>	2022	2021
	\$	\$
Non-current		
Trinidad Petroleum Holdings Limited (Note 24 c)	<u>9,534,921</u>	<u>—</u>
Current		
Trinidad Petroleum Holdings Limited (Note 24 c)	600,000	1,659,844
The Guaracara Refining Company Limited	26,572	193
Petroleum Company of Trinidad and Tobago Limited	1,722	17,566
Paria Fuel Trading Company Limited	363	390
The Government of the Republic of Trinidad and Tobago (GORTT)		
- Value-added Tax Refundable	<u>421,813</u>	<u>255,915</u>
	<u>1,050,470</u>	<u>1,933,908</u>
 (ii) <i>Due to related parties</i>		
Petroleum Company of Trinidad and Tobago Limited	201,989	—
Paria Fuel Trading Company Limited	8,719	15,631
The Guaracara Refining Company Limited	304	297
The Government of the Republic of Trinidad and Tobago (GORTT)		
- Royalties	228,084	160,504
- Production taxes	66,419	28,684
- Supplemental petroleum taxes	<u>443,847</u>	<u>315,662</u>
	<u>949,362</u>	<u>520,778</u>

During the year the Group reversed a set off amount in the value of US\$30,000 (TT\$201,989) with The Petroleum Company of Trinidad and Tobago in relation to assets vested in Heritage.

Production taxes include petroleum levy and petroleum impost which are all payable to the Ministry of Energy and Energy Industries (MEEI).

The Group 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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	2022	2021
	\$	\$
17. Short-term investment		
Short-term investment	<u>13,062</u>	<u>156,284</u>

a. Accounting policy

- (i) The investment held with Credit Suisse Ag., in 2021 matured in May 2022 and was not re-invested.
- (ii) The short-term investment as at 30 September 2022, relates to a fixed deposit held with First Citizens Bank Limited. The deposit has an original maturity of three hundred and sixty-five (365) days. The investment comprises cash collateral held for the Trinidad Northern Areas Block Performance Bond.

b. Financial risk management

The effective interest rates on cash and short-term deposits were between 0.1% and 0.35% (2021: 0.1% and 0.3%) 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.

	2022	2021
	\$	\$
18. Cash and cash equivalents		
Current bank and cash balances	<u>2,041,852</u>	<u>2,070,986</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.

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19. Assets held for sale and Liabilities directly associated with the assets held for sale

The Colibri divestment as at 30 September 2022:

	Asset – Block 3A \$	Asset – Colibri Development \$	Total \$
Balance as at 30 September 2020	198,367	105,763	304,130
Transfer of NCMA Block 9 (Note 5)	–	45,410	45,410
Transfer of investment in associate	–	1,791	1,791
Additions	109,228	158,369	267,597
Proceeds from sale	(307,246)	–	(307,246)
Loss on sale (Note 28)	(349)	–	(349)
Change in decommissioning provision	<u>–</u>	<u>(11,019)</u>	<u>(11,019)</u>
Balance as at 30 September 2021	<u>–</u>	<u>300,314</u>	<u>300,314</u>
Transfer from oil and gas properties and exploration and evaluation assets	–	(1,294)	(1,294)
Proceeds from sale	–	(195,336)	(195,336)
Gain on sale (Note 29)	–	412,343	412,343
Foreign exchange difference	–	(375)	(375)
Reversal of decommissioning provision	<u>–</u>	<u>(515,652)</u>	<u>(515,652)</u>
Balance as at 30 September 2022	<u>–</u>	<u>–</u>	<u>–</u>

In 2020, the Group agreed to sell 100% of its interest in the Colibri Development. On 26 March 2021, the Board approved the inclusion of the Group's interest in PFLE (marketing company) and NCMA 1 - Block 9 assets and related decommissioning obligation, a producing asset, as part of the Colibri divestment. On 1 July 2021, the commercial effective date, the Group sold the Colibri Development assets along with PFLE.

On 30 September 2022 the assets were sold for a cash consideration of \$195,336. The net gains on these disposals were recognised as part of other operating income in the consolidated statement of comprehensive income.

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20. Stated capital

	2022	2021
	\$	\$
Authorised:		
An unlimited number of ordinary shares of no par value		
An unlimited number of preference shares of no par value		
Issued and fully paid:		
1 ordinary share of no par value	<u>—</u>	<u>—</u>

a. Accounting policy

Stated capital

The ordinary share has no par value and entitles 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.

	2022	2021
	\$	\$
21. Currency translation differences		
Currency translation differences	157,593	148,479

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

	2022	2021
	\$	\$
22. Trade and other payables		
<i>Non-current</i>		
Abandonment liability – Third Party	<u>60,632</u>	<u>34,953</u>
<i>Current</i>		
Trade payables	81,671	60,040
Accruals	777,518	583,328
Abandonment liability – Third Party	21,622	26,690
Other payables	22,981	34,917
Royalties and other fees	<u>30,041</u>	<u>18,488</u>
	<u>933,833</u>	<u>723,463</u>

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22. Trade and other payables (continued)

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.

Abandonment liability – Third Party

The Group 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 Group 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 consolidated statement of financial position. Upon expiry or earlier termination of these agreements the Group shall calculate the contracted party's abandonment contribution for eventual abandonment and notify the contracted party of same. If based on the Group'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 Group and may be deductible from any amounts owed to the contracted party whether under this agreement or any other contract the Group has with that party. If the amounts in the fund exceed the liability calculated the surplus shall be paid by the Group to the contracted party. When this occurs, the amount of the liability will be released to the consolidated 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 in trade and other payables on the consolidated 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.

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23. Decommissioning provision	2022	2021
	\$	\$
Opening amount as at 1 October	4,608,446	5,225,201
Unwinding of discount (Note 30)	192,614	240,287
Increase/(decrease) in decommissioning provisions (Note 5)	545,093	(298,146)
Increase/(decrease) in decommissioning provisions (Note 28)	93,443	(19,752)
Transfer to liabilities directly associated with the assets held for sale (Note 19)	–	(515,652)
Change in held for sale provision	–	(11,019)
Translation differences	<u>(9,691)</u>	<u>(12,473)</u>
Closing balance as at 30 September	<u>5,429,905</u>	<u>4,608,446</u>
Of which:		
Non-current portion	<u>5,429,905</u>	<u>4,608,446</u>
	<u>5,429,905</u>	<u>4,608,446</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 2022, 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 increase in provisions in 2022: \$93,443 relates to an adjustment to the abandonment liability carried for fields where the assets net book values are nil. The decrease in provisions in 2021: (\$19,752) related to an adjustment to the abandonment liability carried for the Point Fortin Refinery. These adjustments are reflected in cost of sales within the consolidated statement of comprehensive income (Note 28) 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 2055 and 2072. A 1% change in the escalation and discount rate will have the following impact on the decommissioning provision.

Sensitivities	\$
1% increase in discount rate	4,107,321
1% decrease in discount rate	7,390,580
1% increase escalation rate	7,434,737
1% decrease escalation rate	5,964,482

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23. 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, 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 oil and gas properties and dealt with prospectively.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a risk-free rate in the same currency as the obligation and with similar maturity.

These discount rates were obtained from the US Treasury Yield Curve as quoted by Bloomberg and the escalation rate is obtained from reliable external sources who provide industry data and market information and projections, PIRA, and SP Global as at 30 September 2022. The provision has been estimated using existing technology, at current prices using an escalation rate of 2.30% (2021: 2%) and discounted at a rate between 7.027% and 7.468% (2021: 2.19% and 4.18%) based on reserves.

24. Borrowings	2022	2021
	\$	\$
Total Borrowings of which:		
Current Portion	499,836	321,139
Non-current portion	<u>6,280,722</u>	<u>—</u>
	<u>6,780,558</u>	<u>321,139</u>

Included in total borrowings is an amount of \$6,362 for borrowing costs amortised during the year.

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24. Borrowings (continued)

		Interest rate %	Maturity	2022 \$	2021 \$
Current					
i)	Trintomar loan	–	–	320,799	321,139
ii)	Term loan – US\$475m	8.82	5 May 2029	<u>179,037</u>	<u>–</u>
				<u>499,836</u>	<u>321,139</u>
Non-current					
iii)	2029 Notes – US\$500m	9.00	12 August 2029	3,320,578	–
ii)	Term loan – US\$475m	8.82	5 May 2029	<u>2,960,144</u>	<u>–</u>
				<u>6,280,722</u>	<u>–</u>

i) Trintomar loan

This is an interest free, unsecured loan with no fixed terms of repayment. The loan is with related parties (the predecessor shareholder Petrotrin and NGC) and is repayable on demand. There are no covenants for these borrowings. Movement in this loan relates to foreign currency changes.

ii) Term Loan Facility – US\$475m

This is a Senior Secured seven (7) years floating interest rate Term Loan facility. Interest is payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December commencing on 15 June 2022. There is a one-year moratorium on principal with non-linear amortizations thereafter, commencing in June 2023. This borrowing was effective 12 May 2022.

iii) 2029 Notes – US\$500m

This is a Senior Secured seven (7) years fixed interest rate Bond. Interest is payable semi-annually in arrears in February and August of each year, commencing on 12 February 2023. The principal is payable at maturity on 12 August 2029. This borrowing was effective 12 May 2022.

a. Accounting policy

Borrowings consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowings are recognised initially at fair value and, net of directly attributable transaction costs. Finance charge on borrowings is calculated using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

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24. Borrowings (continued)

b. Borrowings at amortised cost

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income and other comprehensive income when the liabilities are derecognised, as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated statement of comprehensive income.

- c. In May 2022, TPHL together with Heritage successfully concluded a refinancing exercise for TPHL's existing debt. The refinancing included a cash tender offer by Heritage for any and all of TPHL's US\$570.265 million 2026 Notes, the issue of new 2029 Notes by Heritage, as well as a consent solicitation for certain proposed amendments to the Indenture and other applicable security documents governing TPHL's 2026 Notes and the 2029 Notes. The tender offer expired on 24 May 2022. 94.2% of the Holders of TPHL's 2026 Notes accepted the tender offer and the consent solicitation was secured for the proposed amendments.

Concurrent with the tender offer, Heritage also raised new debt in the international capital market and closed a Term Loan Credit Agreement on terms that allow for more operational flexibility for Heritage. Proceeds from this new debt, together with Heritage's own cash were used to redeem the principal amounts outstanding on TPHL's 2026 Notes and the TPHL Term Loan respectively. Part proceeds from the Heritage Term Loan were also used for other corporate purposes.

Petrotrin's shares previously held as collateral under TPHL's Agreements were released in May 2022. The new agreements also provide for the automatic, unconditional and simultaneous releases of the first priority lien senior lenders have on the refinery and all other assets owned by Guaracara and the shares of Guaracara upon the repayment, redemption or satisfaction and discharge in each case, in full of TPHL's 2026 Notes. TPHL's outstanding untendered 2026 Notes were redeemed on 28 June 2022.

Heritage New Debt

Effective 12 May 2022, the following debt instruments were recorded in Heritage's books.

- (i) US\$500 million 7-years bullet Bond at a 9% p.a fixed coupon rate. Interest on this bond is payable semi-annually in arrears in February and August of each year, with the first interest payment due on 12 February 2023. The principal is payable at maturity on 12 August 2029.
- (ii) US\$475 million 7-years floating rate Term Loan. Interest is payable quarterly in arrears. There is a one (1) year moratorium on principal with non-linear amortisations commencing in June 2023 and quarterly thereafter. The Term Loan Credit Agreement was executed on 5 May 2022 and the facility matures on 5 May 2029.

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24. Borrowings (continued)

d. Covenants

TPHL and Paria Fuel Trading Company Limited (“Paria”) are Guarantors on Heritage’s loan agreements. Senior lenders have a priority security interest under New York law and/or Trinidad and Tobago law as applicable over certain of the assets of Heritage, TPHL and Paria including equipment and fixtures, inventory and receivables.

Heritage together with the Guarantors are required to comply with covenants under the Agreements. As of 30 September 2022, there was compliance with these covenants including:

- (i) Heritage is required to maintain a Debt Service Reserve Account with a Bank, which as of any date of determination must satisfy a Debt Service Reserve Requirement consisting of interest and additional amounts (other than principal), if any, and all letter of credit fees, if applicable, in each case, 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 2022, this requirement was satisfied. Refer to Note 8.
- (ii) At least 70% of Heritage’s net revenues from the sale of product, as defined in the Agreements, 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 2022, there has been no collateral event of default. Refer to Note 8.
- (iii) There are a number of affirmative covenants, which are usual and customary for financings of this nature. These include notices to lenders upon occurrence of certain events, provision of periodic financial information, maintenance of Collateral and compliance with applicable laws.
- (iv) There are a number of negative covenants, including restrictions on the ability of the Borrower (Heritage) and the Guarantors to create liens, limitations on additional indebtedness, dividends and/or restricted payments, limitations surrounding capital expenditure and investments, transactions with Affiliates (including Petrotrin and Guaracara), negative pledges, financial ratio compliance requirements and conditions for mandatory prepayments.
- (v) Events of default include, subject to certain exceptions and grace periods, non-payment, material inaccuracy of representations and warranties, breach of covenants, bankruptcy and insolvency, cross default in respect of certain financial indebtedness exceeding US\$25 million, inability to pay debt as it becomes due, and local government exchange controls that could have a material adverse effect. Other usual and customary events of default consistent with financings of this nature are also defined in the loan documents.

25. Dividend proposed

The proposed dividends of \$600,000 represent amounts proposed in relation to the financial year ended 30 September 2021. The amount was settled in full in December 2022.

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	2022	2021
	\$	\$
26. Consolidated reserves		
Consolidated reserves	237,366	237,366

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

	2022	2021
	\$	\$
27. Revenue from contracts with customers		
Crude oil sales	9,307,427	6,155,559
Natural gas sales	438,803	459,066
Royalty income	391,283	198,142
Natural gas liquid sales	<u>22,881</u>	<u>14,255</u>
	<u>10,160,394</u>	<u>6,827,022</u>

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 customer's storage area.

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27. Revenue from contracts with customers (continued)

a. Accounting policy (continued)

(i) Sales revenue (continued)

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).

28. Expenses by nature	2022	
	Cost of sales \$	Administrative expenses \$
Purchases	(2,128,569)	—
Production expenses	(1,168,826)	—
Supplemental petroleum tax	(1,600,917)	—
Depreciation, depletion and amortisation (Note 5, 6)	(411,489)	—
Royalty	(776,016)	—
Production taxes	(297,171)	—
Employee benefits expense (Note 31)	(76,807)	(128,516)
Processing fees	(62,702)	—
Movement in crude oil inventories (Note 14)	(16,653)	—
Depreciation on right of use assets (Note 7)	(11,957)	—
Change in provision obsolescence (Note 14)	31,980	—
Increase in decommissioning provision (Note 23)	(93,443)	—
Insurance	—	(35,541)
Green fund levy	—	(30,948)
Other expenses	—	(9,764)
Management fees	—	(5,086)
Legal and professional fees	—	(1,499)
Directors fees (Note 16a)	—	(685)
Expected credit loss	—	(505)
Gain on exchange of foreign currencies	—	1,067
	<u>—</u>	<u>—</u>
	<u>(6,612,570)</u>	<u>(211,477)</u>

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28. Expenses by nature (continued)	Year ended 30 September 2021	
	Cost of sales \$	Administrative expenses \$
Purchases	(1,344,839)	–
Production expenses	(1,133,082)	–
Supplemental petroleum tax	(609,288)	–
Royalty	(504,404)	–
Depreciation, depletion and amortisation (Note 5, 6)	(491,883)	–
Production taxes	(200,428)	–
Employee benefits expense (Note 31)	(88,829)	(112,873)
Processing fees	(64,064)	–
Change in provision obsolescence	(34,348)	–
Depreciation on right of use assets (Note 7)	(1,906)	–
Movement in inventories	34,288	–
Decrease in decommissioning provision (Note 24)	19,752	–
Insurance	–	(39,997)
Green fund levy	–	(20,468)
Other expenses	–	(5,207)
Management fees	–	(5,086)
Loss on exchange of foreign currencies	–	(1,785)
Directors' fees (Note 16a)	–	(971)
Impairment of investment in subsidiary	–	(720)
Expected credit loss allowance	–	(470)
Loss on disposal	–	(349)
Legal and professional fees	–	8,536
	<u>(4,419,031)</u>	<u>(179,390)</u>

The two (2) year waiver on Supplemental Petroleum Tax obligations expired in June 2021.

29. Other operating income	2022 \$	2021 \$
Pipeline rentals	3,216	5,420
Miscellaneous rental and other income	17,520	22,125
Gain on sale of asset (Note 19)	<u>412,343</u>	<u>–</u>
	<u>433,079</u>	<u>27,545</u>

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	2022	2021
	\$	\$
30. Net finance cost		
Finance charge – borrowings	(251,111)	–
Finance charge on decommissioning provision (Note 23)	(192,614)	(240,287)
Finance charge – bank interest	(2,934)	(2,997)
Finance charge on leases (Note 7)	(2,081)	(540)
Interest income on short term investments	2,978	464
Interest income from bank balances	<u>3,943</u>	<u>1,395</u>
	<u>(441,819)</u>	<u>(241,965)</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.

	2022	2021
	\$	\$
31. Employee benefits expense		
Salaries and wages benefit	(143,816)	(145,599)
Allowances	(39,522)	(36,538)
Overtime	(769)	(674)
Medical insurance	(4,540)	(2,881)
Defined contribution plan – pension expense	(10,026)	(9,511)
National insurance	<u>(6,650)</u>	<u>(6,099)</u>
	<u>(205,323)</u>	<u>(201,702)</u>

Broken down as follows:

Cost of sales (Note 28)	(76,807)	(88,829)
Administration expenses (Note 28)	<u>(128,516)</u>	<u>(112,873)</u>
	<u>(205,323)</u>	<u>(201,702)</u>

The Group has a defined contribution plan. The Plan is governed by the Central Bank of Trinidad and Tobago (CBTT) and the Board of Inland Revenue (BIR) in accordance with the laws of Trinidad and Tobago. Responsibilities of the governance of the Plan including investment strategies, lies with Guardian Life Asset Management (GAM) and the Unit Trust Corporation of Trinidad & Tobago (UTC). The Group's contribution to the defined contribution plan is charged to the statement of comprehensive income in the year to which they relate.

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32. Taxation expense

<i>a. Income tax expense</i>	2022	2021
	\$	\$

The major components of income tax credit for the years ended 30 September are:

<i>Current tax</i>		
Current tax charge	2,035,723	643,730
<i>Deferred tax</i>		
Relating to origination and reversal of valuation allowance on deferred tax assets	<u>110,177</u>	<u>628,644</u>
Income tax charge for the year	<u>2,145,900</u>	<u>1,272,374</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:

	2022	2021
	\$	\$
Accounting profit before tax	<u>3,259,171</u>	<u>1,955,055</u>
Current tax expense at 55%	1,792,544	1,075,280
Non-deductible expenditure less income exempt from tax	189,185	31,178
Increase in valuation allowance	142,384	103,144
Other	<u>21,787</u>	<u>62,772</u>
	<u>2,145,900</u>	<u>1,272,374</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 group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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33. Contingent liabilities

a. Litigation

The Group 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 consolidated financial statements.

b. Letter of credit

(i) The Group has an outstanding letter of credit facility with Credit Suisse AG, New York for US\$23,203 equivalent TT\$156,540 (2021: US\$23,113 equivalent TT\$156,269). 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 2022, this facility was increased to US\$23,671 equivalent (TT\$159,378).

(ii) The Group has a performance bond guarantee with First Citizens Bank Limited for US\$1,940 equivalent TT\$13,062. This credit facility was established to meet Heritage's minimum work obligation for its TNA license. The guarantee is for a tenor of six (6) years as per license agreement. Refer to Note 17 (ii).

34. Commitments

a. Sales commitments

The Group has entered into sales contracts with a number of its customers. At the reporting date, these amounted to approximately TT\$973,013 (2021: TT\$1,110,651) as outlined below:

<i>Product</i>	<i>2022</i>		<i>2021</i>	
	Barrels	\$000	Barrels	\$000
Crude oil	1,573,825	973,013	2,022,492	1,110,651

b. Capital commitments

	2022	2021
	\$	\$
Authorised and contracted for and not provided for in the consolidated financial statements	77,596	36,454

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35. Interests in other entities

Interest in joint operations

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

Effective interest	2022	2021
Moruga West	40.00%	40.00%
Central Block	35.00%	35.00%
East Brighton Block	30.00%	30.00%
Point Ligoure, Guapo Bay, Brighton Marine (PGB)	30.00%	30.00%
Rio Claro Block	20.00%	20.00%
Ortoire Block	20.00%	20.00%
St. Mary's Block	20.00%	20.00%
South East Coast Consortium	16.00%	16.00%
Teak, Samaan, Poui (TSP)	15.00%	15.00%

These joint operations are involved in the exploration for and production of crude oil and natural gas. They represent unincorporated, jointly controlled operations. The Group's interest in the assets, liabilities, income, losses and expenditures of these ventures is included in the relevant components of the Company's separate financial statements, except for assets of NCMA Block 9, NCMA 4 and Block 22, which were sold during the year (Note 19).

36. 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\$23,203 equivalent (TT\$156,540) effective 31 December 2022. Refer to Note 33 (b).
- b. The Guarantor Paria, failed to comply with certain covenants to maintain certain required financial ratios for the fiscal quarter ended 31 December 2022, which triggered an Event of Default under the Credit Agreement. See note 2 (a).
- c. In December 2022, the amount of TT\$600,000 in relation to proposed dividends were settled between Heritage and its parent company TPHL by setting off the declared dividends against the intercompany receivable.
- d. Subsequent to year end, crude prices have averaged US\$73/barrel up to March 2023 compared to US\$94/barrel for the 12 months ended 30 September 2022.
- e. In 2023, the subsidiary Trintomar received letters of forgiveness from NGC and Petrotrin for its shareholders' loan for the full value of the loan.