

Petroleum Company of Trinidad and Tobago Limited

Consolidated Financial Statements

September 30 2004

Petroleum Company of Trinidad and Tobago Limited

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Auditors' Report

To the members of
Petroleum Company of Trinidad and Tobago Limited

We have audited the accompanying consolidated balance sheet of Petroleum Company of Trinidad and Tobago Limited and its subsidiaries (the Group) as of September 30, 2004 and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, as set out on pages 2 to 47. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
January 20, 2005

Petroleum Company of Trinidad and Tobago Limited

Consolidated Income Statement

(Expressed in Thousands of Trinidad and Tobago dollars)

Parent Year ended September 30			Consolidated Year ended September 30	
2003	2004	Notes	2004	2003
\$11,791,658	\$12,325,314		\$12,325,314	\$11,791,706
<u>(8,252,883)</u>	<u>(8,360,187)</u>		<u>(8,326,444)</u>	<u>(8,233,036)</u>
3,538,775	3,965,127		3,998,870	3,558,670
<u>53,347</u>	<u>54,368</u>	2	<u>84,433</u>	<u>80,841</u>
3,592,122	4,019,495		4,083,303	3,639,511
(7,633)	(6,486)		(6,486)	(7,633)
(760,845)	(856,794)		(857,270)	(761,460)
(1,531,142)	(1,685,539)		(1,703,265)	(1,540,453)
<u>702,500</u>	<u>200</u>	3	<u>200</u>	<u>702,500</u>
1,995,002	1,470,876	3	1,516,482	2,032,465
(186,454)	(236,792)		(236,792)	(186,454)
(88,586)	(60,798)		(68,076)	(96,193)
--	123,698		123,698	--
<u>5,662</u>	<u>8,545</u>		<u>9,583</u>	<u>6,181</u>
1,725,624	1,305,529		1,344,895	1,755,999
<u>(1,006,220)</u>	<u>(816,509)</u>	5	<u>(843,935)</u>	<u>(1,029,900)</u>
<u>\$ 719,404</u>	<u>\$ 489,020</u>		<u>\$ 500,960</u>	<u>\$ 726,099</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 47 form an integral part of these financial statements.

Petroleum Company of Trinidad and Tobago Limited

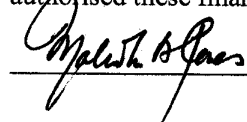
Consolidated Balance Sheet

(Expressed in Thousands of Trinidad and Tobago dollars)

Parent				Consolidated	
September 30			Notes	September 30	
2003	2004			2004	2003
ASSETS					
Non-current assets					
\$ 5,669,751	\$ 6,017,697	Property, plant and equipment	6	\$ 6,033,037	\$ 5,691,274
325,760	276,584	Intangible assets	7	276,584	325,760
774,995	847,500	Retirement benefit asset	8	847,500	774,995
35,858	11,646	Investments - held to maturity	9	11,646	35,858
6,549	4,970	Investments - available for sale	10	4,970	6,549
2,284	2,287	Investments in subsidiaries	11	2,284	2,281
1,065,273	897,230	Deferred tax assets	12	1,087,413	1,280,561
<u>744,522</u>	<u>744,522</u>	Taxes recoverable	13	<u>747,734</u>	<u>750,549</u>
<u>8,624,992</u>	<u>8,802,436</u>			<u>9,011,168</u>	<u>8,867,827</u>
Current assets					
1,138,271	1,332,911	Inventories	14	1,333,295	1,138,795
--	1,046	Loan receivable	15	1,046	--
1,545,785	1,931,128	Receivables and prepayments	16	1,930,022	1,543,528
<u>614,563</u>	<u>885,180</u>	Cash and cash equivalents	17	<u>968,727</u>	<u>640,803</u>
<u>3,298,619</u>	<u>4,150,265</u>			<u>4,233,090</u>	<u>3,323,126</u>
<u>\$11,923,611</u>	<u>\$12,952,701</u>	Total assets		<u>\$13,244,258</u>	<u>\$12,190,953</u>
EQUITY AND LIABILITIES					
Shareholders' Equity					
\$ 2,272,274	\$ 2,272,274	Share capital	18	\$ 2,272,274	\$ 2,272,274
<u>1,823,172</u>	<u>2,312,192</u>	Retained earnings		<u>2,457,936</u>	<u>1,956,976</u>
<u>4,095,446</u>	<u>4,584,466</u>			<u>4,730,210</u>	<u>4,229,250</u>
Non-current liabilities					
1,577,426	1,128,418	Borrowings	19	1,227,362	1,676,473
2,215,007	2,313,066	Deferred tax liabilities	12	2,313,066	2,215,007
314,340	345,240	Retirement benefit obligation	8	345,240	314,340
<u>807,369</u>	<u>1,120,801</u>	Provisions	20	<u>1,176,590</u>	<u>855,880</u>
<u>4,914,142</u>	<u>4,907,525</u>			<u>5,062,258</u>	<u>5,061,700</u>
Current liabilities					
1,362,267	1,754,686	Trade and other payables	21	1,745,766	1,348,247
339,226	545,284	Taxation payable		545,284	339,226
261,825	307,595	Borrowings	19	307,595	261,825
		Bank overdraft and short-term loans	22		
<u>950,705</u>	<u>853,145</u>			<u>853,145</u>	<u>950,705</u>
<u>2,914,023</u>	<u>3,460,710</u>			<u>3,451,790</u>	<u>2,900,003</u>
<u>\$11,923,611</u>	<u>\$12,952,701</u>	Total equity and liabilities		<u>\$13,244,258</u>	<u>\$12,190,953</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 47 form an integral part of these financial statements.

On January 20, 2005 Petroleum Company of Trinidad and Tobago Group's Board of Directors authorised these financial statements for issue.



Director



Director

Petroleum Company of Trinidad and Tobago Limited

Consolidated Statement Of Changes In Equity

(Expressed in Thousands of Trinidad and Tobago dollars)

	Share Capital	Retained Earnings	Total
Parent			
Balance at September 30 2003	\$ 2,272,274	\$ 1,823,172	\$ 4,095,446
Net profit	—	489,020	489,020
Balance at September 30 2004	<u>\$ 2,272,274</u>	<u>\$ 2,312,192</u>	<u>\$ 4,584,466</u>
Consolidated			
Balance at September 30 2003	\$ 2,272,274	\$ 1,956,976	\$ 4,229,250
Net profit	—	500,960	500,960
Balance at September 30 2004	<u>\$ 2,272,274</u>	<u>\$ 2,457,936</u>	<u>\$ 4,730,210</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 47 form an integral part of these financial statements.

Petroleum Company of Trinidad and Tobago Limited

Consolidated Cash Flow Statement

(Expressed in Thousands of Trinidad and Tobago dollars)

Parent			Consolidated	
Year ended			Year ended	
September 30			September 30	
2003	2004	Notes	2004	2003
Cash flows from operating activities:				
\$ 2,419,896	\$ 2,591,894	Cash generated from operations 29	\$ 2,655,684	\$ 2,440,330
(597,829)	(904,345)	Tax paid	(913,619)	(605,887)
(60,000)	(72,305)	Pension contributions paid	(72,305)	(60,000)
(12,280)	(15,500)	Post-employment medical benefits paid	(15,500)	(12,280)
<u>1,749,787</u>	<u>1,599,744</u>	Net cash from operating activities	<u>1,654,260</u>	<u>1,762,163</u>
Investing activities:				
(629,079)	(801,852)	Additions to property, plant and equipment	(800,099)	(648,694)
(10,904)	(7,937)	Additions to intangible assets	(7,937)	(10,904)
1,041	121	Proceeds from disposal of property, plant and equipment	121	1,041
25,789	25,023	Investments - held to maturity	25,023	25,789
(1)	1,579	Investments - available for sale	1,579	(1)
--	(3)	Investment in subsidiaries	(3)	--
64,342	--	Loan repayments received	--	64,342
--	(1,046)	Loan granted to related party	(1,046)	--
5,662	7,691	Interest received	8,729	6,181
<u>(543,150)</u>	<u>(776,424)</u>	Net cash used in investing activities	<u>(773,633)</u>	<u>(562,246)</u>
Financing Activities:				
(258,036)	(231,632)	Repayment of advances for project funding	(231,632)	(258,036)
--	(58,790)	Repayment of other long-term loans	(58,790)	--
(305,258)	(96,064)	Repayment of short-term loans	(96,064)	(305,258)
(277,191)	(166,511)	Interest paid	(166,511)	(277,191)
<u>(840,485)</u>	<u>(552,997)</u>	Net cash used in financing activities	<u>(552,997)</u>	<u>(840,485)</u>
366,152	270,323	Increase in cash and cash equivalents	327,630	359,432
233,634	599,786	Cash and cash equivalents at start of year	626,026	266,594
<u>\$ 599,786</u>	<u>\$ 870,109</u>	Cash and cash equivalents at end of year	<u>\$ 953,656</u>	<u>\$ 626,026</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 47 form an integral part of these financial statements.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A Basis of preparation

The consolidated financial statements of Petroleum Company of Trinidad and Tobago Limited have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets. As there is no equivalent International Financial Reporting Standard, the Group accounts for costs incurred in its natural gas and crude oil producing activities in accordance with the provisions of Canadian Institute of Chartered Accountants, Accounting guidelines - #5 Full Cost Accounting in the Oil and Gas Industry.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

B Consolidation

(1) Subsidiaries

Subsidiaries are all entities (including Special Purpose Entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. See policy E for the accounting policy on goodwill.

Inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

B Consolidation (Continued)

(2) Joint ventures

The Group's interest in jointly controlled entities is accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

C Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Trinidad and Tobago dollars, which is the measurement currency of the parent.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing 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, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

D Property, plant and equipment

(1) Oil and gas assets

The Group accounts for its natural gas and crude oil exploration, development and production activities under the full cost method of accounting.

Under this method all costs associated with the exploration for and development of oil and gas reserves are capitalised. These costs include land acquisition costs, geological and geophysical costs, interest and the carrying costs of non-producing properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs, but do not include any costs related to production, general corporate overheads or similar activities. The costs also includes the estimated costs of dismantlement, asset removal and site restoration.

The provision for depletion and amortisation is determined using the company-wide-unit-of-production method based upon the estimated proved developed reserves of oil and gas, as determined by an independent qualified petroleum consultant. Costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved or become impaired.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on average crude prices during the year, less estimated future development, administration and operating costs and taxation.

Gains and losses on sale or other disposal of oil and gas properties are not recognised unless significant amounts of oil and gas reserves are involved.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

D Property, plant and equipment (Continued)

(2) (i) Non-oil and gas assets

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Manufacturing plant and equipment	- 3.75% - 10%	- straight-line
Floating property	- 20%	- on declining balance
Transportation equipment	- 20%	- on declining balance
Furniture and fixtures	- 20%	- on declining balance
Buildings	- 5%	- on declining balance
Computer equipment (specialised)	- 10%	- straight-line
Computer equipment (non-specialised)	- 33.3%	- straight-line
Other supporting equipment and facilities	- 27.5%	- in the first year and 7.5% on a declining balance for subsequent years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

D Property, plant and equipment (Continued)

(ii) Major inspection and overhaul costs

Major inspection and overhaul costs include expenditure incurred in Testing and Inspection work carried out in Manufacturing, Plant and Equipment and Catalyst costs. These costs are incurred at regular intervals over the useful life of the asset and are made to allow the continued use of the asset. These costs are accounted for as a component of the asset and are written off over the period to the next Testing and Inspection as follows:

Testing and Inspection expenditure	- 3-5 years	- straight-line
Catalyst cost	- 4 years	- straight-line

When the carrying amount of major inspection and overhaul costs is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

E Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired joint venture undertaking at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of twelve (12) years. The useful economic life of goodwill is based on the remaining lease term. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written-down immediately to its recoverable amount.

(2) Computer software

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their useful lives, not exceeding a period of three years (ten years for specialised software).

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

F Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

G Investments

The Group classifies its investments in the following categories: trading, held to maturity and available for sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(c) Trading investments

Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments and are included in current assets; for the purpose of these financial statements short-term is defined as three months.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

G Investments (Continued)

Purchases and sales of investments are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

H Inventories

Inventories of crude oil and refined products are valued at the lower of cost and net realisable value.

The cost of purchased crude oil is computed using the current month's average cost.

The cost of produced crude oil is computed on the basis of the current month's production costs.

The cost of refined products is computed on the basis of the current month's total product cost. The total product cost is comprised of the production cost of own crude, the purchase cost of purchased crude and the total refinery expenses (adjusted to exclude incremental expenses related to the processing of third party crude).

Net realisable values are refinery sales prices as quoted in the 'Caribbean Postings' and the 'Platts Oilgram' at the close of the reporting period.

Inventories of materials and supplies are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses of the materials and supplies.

I Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

J Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

K Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs); and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

L Deferred income taxes

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, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

M Employee benefits

(1) Pension obligations

Retirement benefits for employees are provided through eight defined benefit plans which are funded by contributions from employers and employees. The schemes are generally funded through payments to trustee-administered funds as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

M Employee benefits (Continued)

(2) Other post-employment obligations

The Group provides post-employment healthcare benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

N Provisions

- (i) Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

(ii) Dismantlement costs

Provision is made for the net present value of the estimated cost of dismantling at the end of the producing lives of fields or useful life of storage facilities and the refinery. The gross discounted provision is computed and no adjustment is made to the dismantlement cost for salvage values.

As the liability draws closer to settlement, the impact of the unwinding of the discount rate is included within finance costs.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

O Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Product sales

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts, and after eliminating sales within the Group.

(b) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreement. Royalty income is comprised mainly of overriding royalties from lease operator and farmout arrangements.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(d) Marine income and Processing fees

Marine income and Processing fees are recognised upon delivery of services and customer acceptance.

P Leases

Operating leases

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

Q Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

R Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risks

The Group operates internationally and is exposed to foreign exchange risks arising from various currencies, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The Group monitors its exposure to fluctuations in foreign currencies. If it is determined that there is a need to hedge this exposure the appropriate instrument is used.

(ii) Price Risk

The Group monitors its exposure with respect to commodity price risks and if necessary uses the established over-the-counter swap markets to hedge a portion of the market risks associated with its petroleum products sales.

(b) Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

R Financial risk management (Continued)

Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

Gap analysis is used to measure interest rate exposure. Assets and liabilities are placed in maturity buckets, based on their contractual maturities or repricing dates. If more liabilities than assets are repriced in a given price interval, a liability sensitive gap position arises. If the increase in interest costs is significant the Group uses financial derivatives to mitigate risk.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

1 Incorporation and Business Activities

Petroleum Company of Trinidad and Tobago Limited (PETROTRIN), is incorporated in the Republic of Trinidad and Tobago and is engaged in integrated petroleum operations which include the exploration for, development and production of hydrocarbons and the manufacturing and marketing of petroleum products. The sole shareholder is the Government of the Republic of Trinidad and Tobago (GORTT). Pursuant to a special resolution, the company was issued a certificate of continuance P-1069(C), in accordance with The Companies Act, 1995. The registered office is Administration Building, Pointe-a-Pierre.

2 Other Operating Income

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 49,456	\$ 50,156	Marine income	\$ 50,156	\$ 49,456
<u>3,891</u>	<u>4,212</u>	Processing fees	<u>34,277</u>	<u>31,385</u>
<u>\$ 53,347</u>	<u>\$ 54,368</u>		<u>\$ 84,433</u>	<u>\$ 80,841</u>

3 Operating Profit

Parent September 30			Consolidated September 30	
2003	2004		2004	2003

The following items have been charged/(credited) in arriving at operating profit:

\$ 932,909	\$ 1,091,986	Employee benefits expense (excluding retirement benefits) (Note 4)	\$ 1,097,152	\$ 937,847
567,402	687,349	Depletion, depreciation and amortisation	691,779	568,843
253,088	295,859	Materials expenditure	300,313	256,913
150,692	209,785	Operating lease rental	209,785	150,692
(204,938)	(161,052)	Value of inventories recognised as income (included in 'Cost of Sales')	(160,987)	(205,177)
39,643	57,113	Amortisation of intangible assets (Note 7)	57,113	39,643
31,370	46,400	Other post-employment benefits (Note 8)	46,400	31,370
32,984	36,497	Repairs and maintenance	41,233	51,211
75,920	19,883	Loss on disposal of property, plant and equipment	19,883	75,920
47,986	8,281	Loss on foreign currency exchange (Reversal)/charge for bad and doubtful debts	8,178	48,623
603	(5,648)	Increase/(decrease) in provision for inventory obsolescence	(5,648)	603
(13,198)	1,380	Directors' remuneration	1,380	(13,198)
519	224	Pension – defined benefit plans (Note 8)	224	519
(702,500)	(200)	Reversal of impairment of long-term loan receivable	(200)	(702,500)
<u>(40,774)</u>	<u>--</u>		<u>--</u>	<u>(40,774)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

4 Employee Benefits Expense (Excluding retirement benefits)

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 601,743	\$ 702,147	Salaries and wages benefits	\$ 707,313	\$ 606,681
109,309	132,241	Allowances	132,241	109,309
87,923	109,896	Overtime	109,896	87,923
35,073	43,898	Other personnel costs	43,898	35,073
30,127	41,889	Medical services	41,889	30,127
12,455	14,939	National Insurance	14,939	12,455
12,540	13,675	Savings plan	13,675	12,540
12,915	13,560	Housing aid	13,560	12,915
22,145	10,282	Voluntary Selective Separation Plan	10,282	22,145
<u>8,679</u>	<u>9,459</u>	Travel plan	<u>9,459</u>	<u>8,679</u>
<u>\$ 932,909</u>	<u>\$ 1,091,986</u>		<u>\$ 1,097,152</u>	<u>\$ 937,847</u>

Average number of persons employed by the Group during the year:

3,923	4,124	Full time	4,124	3,923
811	631	Temporary	631	811
<u>176</u>	<u>245</u>	Contract / Trainees	<u>245</u>	<u>176</u>

5 Tax

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ (319,770)	\$ (535,647)	Current tax	\$ (537,968)	\$ (321,356)
(3,662)	(14,760)	Prior year under provision	(14,760)	(4,914)
(682,788)	(203,624)	Deferred tax – current year	(228,729)	(703,630)
<u>--</u>	<u>(62,478)</u>	Deferred tax – prior years	<u>(62,478)</u>	<u>--</u>
<u>\$(1,006,220)</u>	<u>\$ (816,509)</u>		<u>\$ (843,935)</u>	<u>\$(1,029,900)</u>

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

<u>\$ 1,725,624</u>	<u>\$ 1,305,529</u>	Profit before tax	<u>\$ 1,344,895</u>	<u>\$ 1,755,999</u>
\$ (862,812)	\$ (652,765)	Tax calculated at a tax rate of 50%	\$ (672,448)	\$ (877,999)
--	38,259	Non-temporary differences		
		- Income not subject to tax	34,620	--
(84,174)	(47,862)	- Effect of difference on initial recognition of asset	(49,645)	(89,830)
(11,916)	(12,488)	- Green Fund Levy	(12,577)	(11,998)
(3,662)	(14,760)	- Prior year under provision	(14,760)	(4,914)
--	(62,478)	- Prior year deferred tax	(62,478)	--
<u>(43,656)</u>	<u>(64,415)</u>	- Unemployment levy	<u>(66,647)</u>	<u>(45,159)</u>
<u>\$(1,006,220)</u>	<u>\$ (816,509)</u>	Tax	<u>\$ (843,935)</u>	<u>\$(1,029,900)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To the Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

6 Property, Plant and Equipment

Parent

	Major Inspection and Overhaul Costs	Production Assets	Manufacturing Assets	Total
Year ended September 30, 2004				
Cost				
At start of year	\$ 366,693	\$ 9,656,099	\$ 3,474,535	\$ 13,497,327
Additions	102,190	578,895	120,767	801,852
Revised dismantlement cost estimates	--	236,883	16,564	253,447
Disposals	--	(26,478)	(1,657)	(28,135)
At end of year	<u>468,883</u>	<u>10,445,399</u>	<u>3,610,209</u>	<u>14,524,491</u>
Accumulated depletion, depreciation and amortisation				
At start of year	\$ 285,648	\$ 5,987,305	\$ 1,554,623	\$ 7,827,576
Charge for the year	57,210	478,067	152,072	687,349
Disposals	--	(6,515)	(1,616)	(8,131)
At end of year	<u>342,858</u>	<u>6,458,857</u>	<u>1,705,079</u>	<u>8,506,794</u>
Net Book Value				
As at September 30, 2004	<u>\$ 126,025</u>	<u>\$ 3,986,542</u>	<u>\$ 1,905,130</u>	<u>\$ 6,017,697</u>
As at September 30, 2003	<u>\$ 81,045</u>	<u>\$ 3,668,794</u>	<u>\$ 1,919,912</u>	<u>\$ 5,669,751</u>

Depletion, depreciation and amortisation expense of \$687,349 (2003: \$567,402) has been charged in other operating expenses.

Petroleum Company of Trinidad and Tobago Limited

Notes To the Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

6 Property, Plant and Equipment (Continued)

Consolidated

	Major Inspection and Overhaul Costs	Production Assets	Manufacturing Assets	Total
Year ended September 30, 2004				
Cost				
At start of year	\$ 366,693	\$ 10,332,911	\$ 3,474,576	\$ 14,174,180
Additions	102,190	577,142	120,767	800,099
Revised dismantlement cost estimates	--	236,883	16,564	253,447
Disposals	--	(26,478)	(1,657)	(28,135)
At end of year	468,883	11,120,458	3,610,250	15,199,591
Accumulated depletion, depreciation and amortisation				
At start of year	\$ 285,648	\$ 6,642,635	\$ 1,554,623	\$ 8,482,906
Charge for the year	57,210	482,497	152,072	691,779
Disposals	--	(6,515)	(1,616)	(8,131)
At end of year	342,858	7,118,617	1,705,079	9,166,554
Net Book Value				
As at September 30, 2004	<u>\$ 126,025</u>	<u>\$ 4,001,841</u>	<u>\$ 1,905,171</u>	<u>\$ 6,033,037</u>
As at September 30, 2003	<u>\$ 81,045</u>	<u>\$ 3,690,276</u>	<u>\$ 1,919,953</u>	<u>\$ 5,691,274</u>

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on average crude prices during the year, less estimated future development, administration and operating costs and taxation.

If done at year-end prices, the assets would not be impaired.

Included in production assets is a net amortised amount of \$420,016 (2003: \$237,105) in respect of dismantlement costs. Included in manufacturing assets is a net amortised amount of \$61,476 (2003: \$48,426) in respect of dismantlement costs.

Included above is work in progress of \$552,471 (2003: \$590,945).

Depletion, depreciation and amortisation expense of \$691,779 (2003: \$568,843) has been charged in other operating expenses.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

7 Intangible Assets

Parent and Consolidated	Goodwill	Software Costs	Total
Year ended September 30, 2004			
Cost			
At start of year	\$ 383,159	\$ 55,689	\$ 438,848
Additions	--	7,937	7,937
Cost at end of year	383,159	63,626	446,785
Accumulated amortisation			
At start of year	101,105	11,983	113,088
Charge for the year	31,931	25,182	57,113
At end of year	133,036	37,165	170,201
Net Book Value			
As at September 30, 2004	<u>\$ 250,123</u>	<u>\$ 26,461</u>	<u>\$ 276,584</u>
As at September 30, 2003	<u>\$ 282,054</u>	<u>\$ 43,706</u>	<u>\$ 325,760</u>

Goodwill is amortised on a straight-line basis over a period of 12 years.

Amortisation of \$57,113 (2003: \$39,643) has been charged in other operating expenses.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

8 Retirement Benefit Asset/(Obligation)

		Parent and Consolidated September 30	
		2004	2003
Balance sheet asset/(obligation) for:			
Pension benefits	(i)	\$ 847,500	\$ 774,995
Post employment medical benefits	(ii)	<u>(345,240)</u>	<u>(314,340)</u>
		<u>\$ 502,260</u>	<u>\$ 460,655</u>
Income statement credit/(charge) for:			
Pension benefits	(i)	\$ 200	\$ 702,500
Post employment medical benefits	(ii)	<u>(46,400)</u>	<u>(31,370)</u>
		<u>\$ (46,200)</u>	<u>\$ 671,130</u>

(i) Pension benefits

The amounts recognised in the balance sheet are determined as follows:

		Parent and Consolidated September 30	
		2004	2003
Present value of funded obligations		\$(4,655,100)	\$(4,253,600)
Fair value of plan assets		<u>7,036,300</u>	<u>5,428,600</u>
		2,381,200	1,175,000
Unrecognised actuarial gains		(1,240,800)	(264,705)
Un-utilisable assets		<u>(292,900)</u>	<u>(135,300)</u>
Asset in the balance sheet		<u>\$ 847,500</u>	<u>\$ 774,995</u>

This asset represents the present value of the reduction in future contributions, as advised by the actuaries.

The amounts recognised in the income statement were determined as follows:

Current service cost	\$ (102,800)	\$ (70,000)
Interest cost	(281,100)	(271,300)
Expected return on plan assets	455,100	435,300
Amortised gains/(losses)	133,600	(17,000)
Past service cost	(47,000)	(806,700)
Net actuarial (losses)/gains recognised in the year	<u>(157,600)</u>	<u>1,432,200</u>
Total (Note 3)	<u>\$ 200</u>	<u>\$ 702,500</u>

Of the total \$30,258 (2003: \$28,184) has been charged in cost of sales and \$30,458 (2003: \$730,684) has been credited to administrative expenses.

The actual return on the plan assets was \$1,759,700 (2003: \$1,164,300).

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

8 Retirement Benefit Asset/(Obligation) (Continued)

(i) Pension benefits (Continued)

Movement in the asset recognised in the balance sheet:

	Parent and Consolidated September	
	2004	2003
At start of year	\$ 774,995	\$ 12,495
Total income	200	702,500
Contributions paid	<u>72,305</u>	<u>60,000</u>
At end of year	<u>\$ 847,500</u>	<u>\$ 774,995</u>

Included in the amount recognised in the Parent's income statement for 2004 is a charge of \$50,600 which is an adjustment of the 2003 reported income due to an error in applying the minimum Company contribution rate of 12% instead of 14% of pensionable earnings for the Staff Pension Plan. This adjustment impacts on the net actuarial gains recognised in each year. Had the prior year's results been re-stated, a net pension income of \$651,900 and \$50,800 would have been reported for 2003 and 2004 respectively.

(ii) Post-employment medical benefits

The amounts recognised in the balance sheet were determined as follows:

	Parent and Consolidated September	
	2004	2003
Present value of funded obligations	\$ (541,800)	\$ (447,490)
Unrecognised actuarial losses	<u>196,560</u>	<u>133,150</u>
Liability in balance sheet	<u>\$ (345,240)</u>	<u>\$ (314,340)</u>

The amounts recognised in the income statement were as follows:

Current Service Cost	\$ (10,400)	\$ (6,780)
Interest cost	(29,600)	(23,650)
Amortised net loss	<u>(6,400)</u>	<u>(940)</u>
Total (Note 3)	<u>\$ (46,400)</u>	<u>\$ (31,370)</u>

The total charge of \$46,400 (2003: \$31,370) has been charged in administrative expenses.

Movement in the liability recognised in the balance sheet:

At start of year	\$ (314,340)	\$ (295,250)
Total cost	(46,400)	(31,370)
Contributions paid	<u>15,500</u>	<u>12,280</u>
At end of year	<u>\$ (345,240)</u>	<u>\$ (314,340)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

8 Retirement Benefit Asset/(Obligation) (Continued)

	Parent and Consolidated September	
	2004	2003
The principal actuarial assumptions were as follows:		
Discount rate – active members and deferred pensioners	6.50% pa	6.75% pa
Discount rate – current pensioners	6.50% pa	6.75% pa
Expected Return on Plan Assets (net investment expenses)	8.50% pa	8.50% pa
Future salary increases	5.50% pa	5.50% pa
Medical expenses inflation	5.50% pa	5.50% pa

9 Investments - Held To Maturity

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
<u>\$ 35,858</u>	<u>\$ 11,646</u>	Canadian Wheat Board Bond	<u>\$ 11,646</u>	<u>\$ 35,858</u>

In order to manage the risks arising from fluctuations in the Japanese yen exchange rate on the Export Import Bank of Japan (EXIMBANK) loan, the Company holds Canadian Wheat Board Japanese yen long-term bonds which were purchased on October 1, 1997. These bonds mature in March and September of each year to March 3, 2006. The cash inflows are used to meet the principal and interest payments on the EXIMBANK loan. Since these Japanese yen bonds are Canadian government sovereign debt, the credit risk is considered minimal.

10 Investments - Available For Sale

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 6,360	\$ 4,542	La Brea Industrial Development Company Limited (LABIDCO)	\$ 4,542	\$ 6,360
--	239	Point Fortin LNG Exports Limited (PFLE)	239	--
188	188	Metal Industries Company Limited	188	188
<u>1</u>	<u>1</u>	Lake Asphalt of Trinidad and Tobago (1975) Limited (LATT)	<u>1</u>	<u>1</u>
<u>\$ 6,549</u>	<u>\$ 4,970</u>		<u>\$ 4,970</u>	<u>\$ 6,549</u>

The directors of the Company consider the amounts stated above to represent the fair value of the investments.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

11 Investments In Subsidiaries

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
Subsidiary companies				
		Trinidad and Tobago Marine Petroleum		
\$ 1	\$ 1	Company Limited (Trintomar)	\$ --	\$ --
2	2	Trinmar Limited (Trinmar)*	2	2
12	12	Petrotrin de Venezuela S.A.*	12	12
47	50	Trintoc Services Limited (Trinserv)*	50	47
720	720	Trinidad Northern Areas Limited (TNA)*	720	720
		Petrotrin EAP Services		
		Limited (PEAPSL)*	1,500	1,500
<u>1,500</u>	<u>1,500</u>		<u>1,500</u>	<u>1,500</u>
\$ 2,282	\$ 2,285		\$ 2,284	2,281
<u>2</u>	<u>2</u>	Net advances to subsidiary	<u>--</u>	<u>--</u>
<u>\$ 2,284</u>	<u>\$ 2,287</u>	Total Investments in Subsidiaries	<u>\$ 2,284</u>	<u>\$ 2,281</u>

*These companies identified as subsidiaries were not consolidated as they were considered immaterial.

The subsidiary companies are as follows:

Name of Company	Country of Incorporation	Proportion of issued equity capital held
Trintomar	Trinidad and Tobago	80%
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.		
Trinmar	Trinidad and Tobago	100%
Trinmar operates certain concessions in accordance with a Marine Operating Agreement dated August 1, 1960.		
Petrotrin de Venezuela S.A.	Venezuela	49%
Petrotrin de Venezuela was formed for the specific purpose of facilitating the exploration work in the Gulf of Paria East area, Venezuela together with IneParia Inc.		
Trinserv	Trinidad and Tobago	100%
Trinserv is engaged primarily in the provision of marketing information and the purchase of materials on a commission basis through its Miami office, for Petrotrin.		
TNA	United Kingdom	100 %
TNA was formed for the specific purpose of holding certain licenses. These licenses assign certain rights to explore for, drill, develop, produce and take oil, natural gas and other hydrocarbons from certain geological areas within the jurisdiction of Trinidad and Tobago.		
PEAPSL	Trinidad and Tobago	100 %
PEAPSL provides counselling services for employees and third parties.		

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

12 Deferred Tax Assets/(Liabilities)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 50% (2003: 50%).

The gross movement on the deferred income tax account is as follows:

Parent			Consolidated	
September 30	September 30		September 30	September 30
2003	2004		2004	2003
\$ (466,946)	\$(1,149,734)	At start of year	\$ (934,446)	\$ (230,816)
		Income statement charge		
<u>(682,788)</u>	<u>(266,102)</u>	(Note 5)	<u>(291,207)</u>	<u>(703,630)</u>
<u>\$(1,149,734)</u>	<u>\$(1,415,836)</u>	At end of year	<u>\$(1,225,653)</u>	<u>\$ (934,446)</u>

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Group has tax losses totalling approximately \$1,637,462 (2003: \$2,055,142) to carry forward against future taxable income. These amounts have not been agreed with the Board of Inland Revenue.

Included in the charge recognised in the Parent's income statement for 2004 is an amount of \$62,478 that is a cumulative adjustment of the reported income for the years 1997 to 2003 due to an error in the determination of the tax written down value of production assets. This adjustment impacts on accelerated tax depreciation for each year.

Deferred tax assets and liabilities in the balance sheet and the deferred tax charge in the income statement are attributable to the following items:

Parent	September 30, 2003	(Charged)/ credited to income	September 30, 2004
Deferred income tax assets:			
Tax losses carried forward	\$ 817,388	\$ (185,409)	\$ 631,979
Medical provision	157,170	15,450	172,620
Vacation accrued	37,213	8,169	45,382
Bad and doubtful debts	19,981	--	19,981
Net interest charge	--	13,893	13,893
Exchange loss	22,306	(15,333)	6,973
Stock provision	11,215	(4,813)	6,402
	<u>\$ 1,065,273</u>	<u>\$ (168,043)</u>	<u>\$ 897,230</u>
Deferred income tax liabilities:			
Accelerated tax depreciation	\$ (1,782,140)	\$ (107,176)	\$ (1,889,316)
Pension benefit asset	(387,498)	(36,252)	(423,750)
Net interest paid	<u>(45,369)</u>	<u>45,369</u>	<u>--</u>
	<u>\$ (2,215,007)</u>	<u>\$ (98,059)</u>	<u>\$ (2,313,066)</u>
Net deferred income tax liability	<u>\$ (1,149,734)</u>	<u>\$ (266,102)</u>	<u>\$ (1,415,836)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

12 Deferred Tax Assets/(Liabilities) (Continued)

Consolidated	September 30, 2003	(Charged)/ credited to income	September 30, 2004
Deferred income tax assets:			
Tax losses carried forward	\$ 1,027,571	\$ (208,840)	\$ 818,731
Medical provision	157,170	15,450	172,620
Vacation accrued	37,213	8,169	45,382
Bad and doubtful debts	19,981	--	19,981
Net interest charge	--	13,893	13,893
Exchange loss	23,865	(17,194)	6,671
Stock provision	11,215	(4,813)	6,402
Accelerated book depreciation	3,546	187	3,733
	<u>\$ 1,280,561</u>	<u>\$ (193,148)</u>	<u>\$ 1,087,413</u>
Deferred income tax liabilities:			
Accelerated tax depreciation	\$ (1,782,140)	\$ (107,176)	\$ (1,889,316)
Pension benefit asset	(387,498)	(36,252)	(423,750)
Net interest paid	(45,369)	45,369	--
	<u>\$ (2,215,007)</u>	<u>\$ (98,059)</u>	<u>\$ (2,313,066)</u>
Net deferred income tax liability	<u>\$ (934,446)</u>	<u>\$ (291,207)</u>	<u>\$ (1,225,653)</u>

13 Taxes Recoverable

This represents an amount recoverable from the Board of Inland Revenue due to revisions to capital allowances.

14 Inventories

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 261,152	\$ 296,121	Materials and supplies – cost	\$ 296,121	\$ 261,152
<u>(22,429)</u>	<u>(23,809)</u>	Less: provision for obsolescence	<u>(23,809)</u>	<u>(22,429)</u>
238,723	272,312		272,312	238,723
441,232	317,526	Crude oil – cost	317,910	441,756
<u>458,316</u>	<u>743,073</u>	Refined products – cost	<u>743,073</u>	<u>458,316</u>
<u>\$ 1,138,271</u>	<u>\$ 1,332,911</u>		<u>\$ 1,333,295</u>	<u>\$ 1,138,795</u>

The Group recognised an increase of \$1,380 (2003: decrease of \$13,198) in the provision for obsolescence of its inventories. This increase in the provision has been included in other operating expenses in the income statement.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Loan Receivable

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
		Loan to related company		
\$ --	\$ 1,046	- Point Fortin LNG Exports Limited	\$ 1,046	\$ --

This amount represents a short-term, non-interest bearing loan which was Petrotrin's share (19.5%) of Point Fortin LNG Exports (PFLE) Limited's funding request of its shareholders.

By Loan Facility Letter Agreement of May 1, 2002, Petrotrin along with the other shareholders of PFLE agreed to each make available a revolving loan facility of an amount up to a total of US\$10,000 to fund the working capital requirements and any sums falling due for payment under and in accordance with the terms of its Business Contracts. Petrotrin's share of this obligation will not at any time exceed US\$1,950. PFLE may draw down under this facility at any time from May 1, 2002 until May 1, 2007 and shall repay any outstanding amounts in full by May 1, 2007.

16 Receivables And Prepayments

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
\$ 1,280,188	\$ 1,598,528	Trade receivables	\$ 1,598,595	\$ 1,280,207
<u>(46,431)</u>	<u>(40,451)</u>	Less: provision for impairment of receivables	<u>(40,451)</u>	<u>(46,431)</u>
<u>1,233,757</u>	<u>1,558,077</u>		<u>1,558,144</u>	<u>1,233,776</u>
231,669	372,615	Other receivables	382,863	248,412
<u>(28,499)</u>	<u>(25,484)</u>	Less: provision for impairment of receivables	<u>(25,484)</u>	<u>(29,023)</u>
<u>203,170</u>	<u>347,131</u>		<u>357,379</u>	<u>219,389</u>
18,495	11,421	Due from subsidiary company	--	--
<u>90,363</u>	<u>14,499</u>	Prepayments	<u>14,499</u>	<u>90,363</u>
<u>\$ 1,545,785</u>	<u>\$ 1,931,128</u>		<u>\$ 1,930,022</u>	<u>\$ 1,543,528</u>

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The Group reversed \$9,519 of a previous impairment of its trade receivables during the year. The amount reversed has been included in administrative expenses (\$7,694) and cost of sales (\$1,825) in the income statement.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

17 Cash And Cash Equivalents

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 17,660	\$ 7,559	Cash at bank and in hand	\$ 68,828	\$ 27,466
<u>596,903</u>	<u>877,621</u>	Short-term bank deposits	<u>899,899</u>	<u>613,337</u>
<u>\$ 614,563</u>	<u>\$ 885,180</u>		<u>\$ 968,727</u>	<u>\$ 640,803</u>

The weighted average effective interest rate on short-term deposits was 1.53% (2003: 1.27%) and these deposits have an average maturity of three days.

Short-term bank deposits of the Parent include deposits of \$104,495 (2003: \$104,024) held in Trust Accounts as part of the Collateral associated with the forward sale contract with the Caribbean Oil Purchase Company Limited (see Note 19 iii). These deposits are held for the benefit of the Noteholders and MBIA Insurance Corporation in accordance with their respective interests.

For purposes of the consolidated cash flow statement, the year end cash and cash equivalents comprise the following:

\$ 614,563	\$ 885,180	Cash and cash equivalents	\$ 968,727	\$ 640,803
<u>(14,777)</u>	<u>(15,071)</u>	Bank overdrafts	<u>(15,071)</u>	<u>(14,777)</u>
<u>\$ 599,786</u>	<u>\$ 870,109</u>		<u>\$ 953,656</u>	<u>\$ 626,026</u>

18 Share Capital

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
		Authorised		
		300,000,000 ordinary shares of no par value		
		(2003: 300,000,000 ordinary shares of no par value)		
		Issued and fully paid		
		300,000,000 ordinary shares of no par value		
		(2003: 300,000,000 ordinary shares of		
<u>\$ 2,272,274</u>	<u>\$ 2,272,274</u>	no par value)	<u>\$ 2,272,274</u>	<u>\$ 2,272,274</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
		Non-Current		
\$ 150,850	\$ --	(i) Bank borrowings	\$ --	\$ 150,850
745,591	525,814	(ii) Project funding	525,814	745,591
942,810	910,199	(iii) Forward sale contract	910,199	942,810
<u> --</u>	<u> --</u>	(iv) Other	<u>98,944</u>	<u>99,047</u>
1,839,251	1,436,013		1,534,957	1,938,298
<u>(261,825)</u>	<u>(307,595)</u>	Less: current portion	<u>(307,595)</u>	<u>(261,825)</u>
<u>\$ 1,577,426</u>	<u>\$ 1,128,418</u>		<u>\$ 1,227,362</u>	<u>\$ 1,676,473</u>

Non-current borrowings include a secured liability in the sum of \$38,798 (2003: two secured liabilities totaling \$196,344). This borrowing is secured by the provision of Government of the Republic of Trinidad and Tobago (GORTT) guarantees.

\$ 1,288,286	\$ 1,050,809	Total borrowings		
		- at fixed rates	\$ 1,149,753	\$ 1,387,333
<u>550,965</u>	<u>385,204</u>	- at floating rates	<u>385,204</u>	<u>550,965</u>
<u>\$ 1,839,251</u>	<u>\$ 1,436,013</u>		<u>\$ 1,534,957</u>	<u>\$ 1,938,298</u>

		Weighted average effective interest rates:		
8.35%	7.66%	- bank borrowings (medium & long-term)	7.66%	8.35%

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
Maturity of non-current borrowings:				
\$ 261,825	\$ 307,595	Not later than 1 year	\$ 307,595	\$ 261,825
751,056	391,984	Later than 1 and less than 3 years	391,984	751,056
107,003	95,585	Between 3 and 4 years	95,585	107,003
<u>719,367</u>	<u>640,849</u>	Over 5 years	<u>739,793</u>	<u>818,414</u>
<u>\$ 1,839,251</u>	<u>\$ 1,436,013</u>		<u>\$ 1,534,957</u>	<u>\$1,938,298</u>

Borrowing facilities:

As at September 30, 2004, the Company has credit facilities with various foreign and local banking institutions totalling \$2,589,200 (2003: \$2,503,463), of which the sum of \$1,761,148 (2003: \$1,570,263) was unutilised.

(i) Non-Current Bank Borrowings

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
<u>\$ 150,850</u>	<u>\$ --</u>	Citicorp Merchant Bank Limited	<u>\$ --</u>	<u>\$ 150,850</u>

Description

Terms and Conditions

Security

Citicorp Merchant Bank Limited

This loan was issued on December 24, 1997 for a principal amount of US\$24,000 (TT\$150,850).

The loan was repaid in February 2004.

Petrotrin bonds, assignment of receivables and GORTT comfort letter for \$30,000.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(ii) Borrowings – Project Funding

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
		(a) Advances from the GORTT		
		- InterAmerican Development		
\$ 505,471	\$ 346,405	Bank (IDB)	\$ 346,405	\$ 505,471
		- The Export Import Bank of		
56,255	33,961	Japan (EXIMBANK)	33,961	56,255
<u>115,681</u>	<u>87,469</u>	- European Investment Bank (EIB)	<u>87,469</u>	<u>115,681</u>
677,407	467,835		467,835	677,407
		(b) Advances from Caribbean		
45,493	38,798	Development Bank (CDB)	38,798	45,493
		(c) Advances from GORTT		
<u>22,691</u>	<u>19,181</u>	EIB - MTBE Project	<u>19,181</u>	<u>22,691</u>
<u>\$ 745,591</u>	<u>\$ 525,814</u>		<u>\$ 525,814</u>	<u>\$ 745,591</u>

(a) Advances from the GORTT

The GORTT, on behalf of the Group, entered into long-term agreements with the IDB, EXIMBANK and EIB (the Banks). The proceeds of these loans were on lent to the Company via various agreements, the principal one being the IDB agreement dated December 6, 1991 on the same terms and conditions as those between the GORTT and the Banks except for the interest rate.

The interest rate charged by the GORTT to the Group for funds applied to sub-projects A, B and C, described below, excluding the environmental components and sub-project A, is 3% above the rate payable by the GORTT to the Banks.

The funds received were used to finance three projects, herein referred to as the Energy Project. These Projects are:

- **Sub-Project A**

Secondary Recovery of Oil Onshore (Heavy Oil Recovery at Forest Reserve and Point Fortin);

- **Sub-Project B**

Secondary Recovery of Oil Offshore (Trinmar Waterflood);

- **Sub-Project C**

Modernisation of the Refinery at Pointe-a-Pierre (Refinery Upgrade).

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(a) Advances from the GORTT (Continued)

Description	Terms and Conditions	Security
IDB		
<p>This loan was entered into on June 25, 1991 for a maximum financing facility of US\$260,000 (TT\$1,632,475) including interest, of which US\$259,916 (TT\$1,631,948) was fully drawn down by December 25, 1996.</p>	<p>The loan is being repaid by nineteen semi-annual equal instalments in January and July of each year which commenced on July 6, 1997 with the final instalment due on July 6, 2006.</p>	Unsecured.
<p>The loan balance is expressed in terms of a pool of currencies referred to as Units of Account (UOA) and semi-annual repayments will be expressed in UOA and converted to the currency requested by IDB based on the UOA value on the date of payment.</p>	<p>Interest, which is payable semi-annually at rates determined by the IDB, ranged from 7.85% to 7.62% (2003: 8.27% to 8.51%) per annum during the year.</p>	
<p>The principal outstanding at September 30, 2004 was:</p> <p>UOA 34,096,727 equivalent to US\$ 55,171 - TT\$ 346,405</p>	<p>The executing agency is required to maintain during the life of the contract a ratio of current assets to current liabilities of not less than 1.2.</p>	
<p>September 30, 2003 was:</p> <p>UOA 50,654,608 equivalent to US\$ 80,420 - TT\$ 505,471</p>	<p>The borrower and the executing agency undertake to ensure that during the life of the contract, the executing agency does not assume, without prior consent of the Bank, new financial obligations with maturities of more than one year as a result of which:</p> <p>i) The ratio between internal generation of funds and the consolidated total service of its debt is less than 1.5.</p> <p>ii) The ratio of its long-term debt to its net worth, is more than 0.75.</p>	
<p>Interest capitalised totalling US\$6,046 (TT\$37,907) was repaid to GORTT on February 21, 2003.</p>	<p>iii) In either case described in (i) and (ii) above, if additional debt for any project is greater than US\$25,000, the executing agency obtains the Bank's prior agreement.</p>	

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(a) Advances from the GORTT (Continued)

Description	Terms and Conditions	Security
EXIMBANK		
This loan was entered into on October 21, 1991 for an un-tied yen denominated loan facility from the EXIMBANK in an aggregate principal amount up to, but not exceeding, the yen equivalent of US\$40,000 (TT\$251,150). This facility was fully drawdown by December 30, 1994. The principal outstanding as at September 30, 2004 was:	The principal is being repaid by twenty-two semi-annual equal instalments, in March and September, which commenced September 6, 1995, with the final instalment due on March 6, 2006.	Unsecured.
¥ 599,483 - TT\$ 33,961	Interest is paid semi-annually. During the year, the rate varied between 6.5% to 8.7% (2003: 6.5% to 8.7%) per annum.	
September 30, 2003 was:		
¥ 999,195 - TT\$ 56,255		
EIB		
This loan was entered into on December 12, 1991 for a principal sum 38,000 ECUs to be disbursed in US\$, yen and sterling. This facility was fully drawdown on June 5, 1997. The principal outstanding as at September 30, 2004 was:	The principal is being repaid by twenty-two semi-annual instalments in June and December of each year which commenced June 5, 1996, with the final instalment due by December 5, 2006.	Unsecured.
US\$ 6,387 - TT\$ 40,102	Interest is paid semi-annually.	
¥ 263,498 - TT\$ 14,927	During the year, the rate varied between 6% to 8.15% (2003: 6% to 8.15%) per annum.	
£ 2,871 - <u>TT\$ 32,440</u>		
		<u>TT\$ 87,469</u>
September 30, 2003 was:		
US\$ 8,722 - TT\$ 54,823		
¥ 359,781 - TT\$ 20,256		
£ 3,919 - <u>TT\$ 40,602</u>		
		<u>TT\$ 115,681</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(b) Advances from CDB

Description	Terms and Conditions	Security																		
<p>This loan was entered into on April 30, 1993 for a principal sum of US\$18,000 (TT\$113,018) to be used on Sub-Project A (see Note 19(a) above). The final disbursement on the facility was made on June 30, 1997. The principal outstanding as at September 30, 2004 was:</p> <table border="0"> <tr> <td>EC\$ 142 -</td> <td>TT\$ 328</td> </tr> <tr> <td>US\$ 5,784 -</td> <td>TT\$ 36,322</td> </tr> <tr> <td>and</td> <td><u>TT\$ 2,148</u></td> </tr> <tr> <td></td> <td><u>TT\$ 38,798</u></td> </tr> </table> <p>September 30, 2003 was:</p> <table border="0"> <tr> <td>EC\$ 166 -</td> <td>TT\$ 378</td> </tr> <tr> <td>US\$ 6,587 -</td> <td>TT\$ 41,401</td> </tr> <tr> <td>EURO 164 -</td> <td>TT\$ 1,193</td> </tr> <tr> <td>and</td> <td><u>TT\$ 2,521</u></td> </tr> <tr> <td></td> <td><u>TT\$ 45,493</u></td> </tr> </table>	EC\$ 142 -	TT\$ 328	US\$ 5,784 -	TT\$ 36,322	and	<u>TT\$ 2,148</u>		<u>TT\$ 38,798</u>	EC\$ 166 -	TT\$ 378	US\$ 6,587 -	TT\$ 41,401	EURO 164 -	TT\$ 1,193	and	<u>TT\$ 2,521</u>		<u>TT\$ 45,493</u>	<p>The principal is to be repaid in forty-four quarterly instalments in March, June, September and December of each year which commenced September 30, 1999 with the final instalment due June 30, 2010.</p> <p>Interest is payable quarterly. The bank may increase or decrease the rate of interest and during the year, the rate was 5.5% (2003: 5.75% to 7.5%) per annum.</p> <p>A commitment charge at the rate of 1% per annum was payable on the undisbursed amount of the loan.</p>	<p>Guaranteed by the GORTT.</p>
EC\$ 142 -	TT\$ 328																			
US\$ 5,784 -	TT\$ 36,322																			
and	<u>TT\$ 2,148</u>																			
	<u>TT\$ 38,798</u>																			
EC\$ 166 -	TT\$ 378																			
US\$ 6,587 -	TT\$ 41,401																			
EURO 164 -	TT\$ 1,193																			
and	<u>TT\$ 2,521</u>																			
	<u>TT\$ 45,493</u>																			

(c) Advances from GORTT-EIB-MTBE Project

<p>The GORTT entered into a long-term loan agreement with EIB. The proceeds of this loan was on lent on September 6, 1994 on the same terms and conditions as between the GORTT and the EIB except for the interest rate.</p> <p>The amount advanced was utilised for the construction of Methyl Tertiary Butyl Ether (MTBE) Production Plant at the Pointe-a-Pierre refinery. This contract provides for a total of 8,500 ECUs of which 5,400 ECUs were fully drawdown on September 29, 1997. The principal outstanding as at September 30, 2004 was:</p> <table border="0"> <tr> <td>US\$ 2,672 -</td> <td>TT\$ 16,778</td> </tr> <tr> <td>¥ 42,417 -</td> <td><u>TT\$ 2,403</u></td> </tr> <tr> <td></td> <td><u>TT\$ 19,181</u></td> </tr> </table> <p>September 30, 2003 was:</p> <table border="0"> <tr> <td>US\$ 3,161 -</td> <td>TT\$ 19,867</td> </tr> <tr> <td>¥ 50,172 -</td> <td><u>TT\$ 2,824</u></td> </tr> <tr> <td></td> <td><u>TT\$ 22,691</u></td> </tr> </table>	US\$ 2,672 -	TT\$ 16,778	¥ 42,417 -	<u>TT\$ 2,403</u>		<u>TT\$ 19,181</u>	US\$ 3,161 -	TT\$ 19,867	¥ 50,172 -	<u>TT\$ 2,824</u>		<u>TT\$ 22,691</u>	<p>The loan is being repaid by twenty-four semi-annual equal instalments in April and October of each year which commenced October 5, 1997 with the final instalment due April 2010.</p> <p>Interest is calculated semi-annually at the rate of 3% per annum on those sums applied to the environmental aspects of the Project and at 6% per annum on all other sums.</p>	<p>Unsecured.</p>
US\$ 2,672 -	TT\$ 16,778													
¥ 42,417 -	<u>TT\$ 2,403</u>													
	<u>TT\$ 19,181</u>													
US\$ 3,161 -	TT\$ 19,867													
¥ 50,172 -	<u>TT\$ 2,824</u>													
	<u>TT\$ 22,691</u>													

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(iii) Forward Sale Contract

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
		Caribbean Oil Purchase		
\$ 942,810	\$ 910,199	Company Limited (COPCO)	\$ 910,199	\$ 942,810

Petrotrin entered into a forward sale contract (Diesel Contract) with the Caribbean Oil Purchase Company Limited (COPCO), a limited liability company incorporated under the laws of the Cayman Islands. All of the issued shares in COPCO are beneficially held in trust on behalf of the Noteholders.

In accordance with SIC 12 – Consolidation – Special Purpose Entities the assets and liabilities of COPCO have been reflected in the Group financial statements of Petrotrin.

The Diesel Contract provides for the forward sale of a fixed quantity of diesel, also known as No. 2 Oil, to be delivered to COPCO in quarterly delivery periods. In consideration of the forward sale contract, Petrotrin received \$936,638 (US\$150,000) from COPCO.

To finance the Diesel Contract, COPCO raised US\$150,000 in the United States Securities market by issuing limited recourse Senior Notes to various investors. At the time of issue, the Notes were rated “AAA” by Standard & Poor’s, and “Aaa” by Moody’s Investors Service Inc.

Description	Terms and Conditions	Security
Petrotrin entered into the Diesel Contract with COPCO on December 28, 2001.	Both interest and insurance premiums on the Senior Notes started accruing from December 28, 2001 and are payable quarterly on each January 15, April 15, July 15, and October 15. Interest and insurance premium are at rates of 6.88% and 1.05% per annum respectively.	Limited recourse Forward Sale of No. 2 Oil.
The Diesel Contract requires Petrotrin to deliver to COPCO an aggregate number of barrels of diesel, plus any additional barrels required during the period commencing December 28, 2001 until January 15, 2014. The number of barrels required for delivery is determined on the basis of a floor price for diesel of US\$0.25 per gallon.	Principal on the Senior Notes is payable on a quarterly basis, commencing on April 15, 2004. The Senior Notes are subject to optional and mandatory redemption in certain circumstances.	
Under the Diesel Contract, Petrotrin acts as marketing agent on behalf of COPCO with respect to the delivery and sale of the diesel to approved buyers. Payments received by COPCO from the approved buyers pursuant to the Diesel Contract are principally used to pay amounts due on the Senior Notes and to the insurance guarantor of the Senior Notes.		

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(iii) Forward Sale Contract (Continued)

Description	Terms and Conditions	Security
<p>If the proceeds from the sale of the required barrels of diesel is insufficient to cover the scheduled payments, Petrotrin is obligated to make good the shortfall by either paying cash or supplying additional barrels. However, any surplus receipts by COPCO are refunded to Petrotrin.</p>	<p>The Diesel Contract requires Petrotrin to satisfy the following major covenant:</p> <p>(i) Debt to Equity Ratio of:</p> <p>(a) 1.35 or less before September 30, 2003</p> <p>(b) 1.20 or less from October 1, 2003 to September 30, 2006.</p> <p>(c) 1.10 or less from October 1, 2006 to September 30, 2009</p> <p>(d) 1.0 or less thereafter.</p> <p>(ii) Debt Service Coverage Ratio equal to or greater than 1.40 as of the last day of any fiscal quarter.</p>	
<p>MBIA Insurance Corporation (MBIA) guarantees payments of principal in accordance with the amortisation schedule and accrual and unpaid interest in respect thereof to the Noteholders for an insurance premium. MBIA does not guarantee payment of principal or interest in excess of scheduled payments upon redemption of the notes or upon acceleration of the notes and will not guarantee payments of any Make Whole Premium.</p>		
<p>If at any time any Specified Event occurs, COPCO (at the direction of MBIA or, in certain circumstances, majority Noteholders) may exercise its rights of termination under the Diesel Contract and redeem the Senior Notes in whole, but not in part, at a redemption price equal to the unpaid principal amount of the Senior Notes, <i>plus</i> accrued and unpaid interest and Additional Amounts, if any, on the Senior Notes through the Redemption Date, <i>plus</i>, a Make Whole Premium.</p>		

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(iii) Forward Sale Contract (Continued)

Description	Terms and Conditions	Security
	(iii) Tangible Net Worth equal to or greater than:	
	(A) on the last day of each fiscal quarter ending on or before September 30, 2006, TT\$1,750 plus 100% of any increase in share capital attributable to investment by any shareholder of Petrotrin made after October 1, 2001; and	
	(B) on the last day of any fiscal quarter after October 1, 2006, the greater of (i) TT\$2,000 and (ii) the sum of (1) TT\$1,750 plus 100% of any increase in share capital attributable to investment by any shareholder of Petrotrin made after October 1, 2001 and (2) 50% of the difference between aggregate Net Profit for Petrotrin's fiscal years 2002 through 2006 minus aggregate Dividends paid to the shareholders of Petrotrin during the same period.	

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

19 Borrowings (Continued)

(iv) Other

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ --	\$ --	The National Gas Company of Trinidad and Tobago Limited	\$ 98,944	\$ 99,047

This represents an amount owed to The National Gas Company of Trinidad and Tobago Limited (NGC) by Trintomar in respect of a loan agreement dated July 12, 1993 for a principal sum of US\$24,000. This loan is unsecured with no fixed terms of repayment.

20 Provisions

Dismantlement Costs

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 736,689	\$ 807,369	At start of year	\$ 855,880	\$ 787,409
(17,906)	253,447	Revised costs estimates	253,447	(27,722)
		Charge to income statement		
88,586	60,798	- Finance charge	68,076	96,193
		- Write back of dismantlement provision	(813)	--
<u>\$ 807,369</u>	<u>\$ 1,120,801</u>	At end of year	<u>\$ 1,176,590</u>	<u>\$ 855,880</u>

This represents management's best estimated cost of dismantling exploration and production assets at the end of the producing lives of the fields and the refinery at the end of its useful life.

A provision of \$1,176,590 has been recognised for decommissioning costs. These costs are expected to be incurred within 20 to 25 years of the current year. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 15% (2003: 15%) per annum.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

21 Trade And Other Payables

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 825,278	\$ 1,128,866	Trade payables	\$ 1,133,214	\$ 828,064
		Due to Government of Trinidad & Tobago		
84,416	110,474	- Royalties	111,545	86,338
78,388	93,353	- Taxes other than income taxes	93,833	79,418
19,813	14,819	Due to subsidiary company	--	--
198,999	268,311	Benefits due to employees	268,311	199,054
<u>155,373</u>	<u>138,863</u>	Other payables	<u>138,863</u>	<u>155,373</u>
<u>\$ 1,362,267</u>	<u>\$ 1,754,686</u>		<u>\$ 1,745,766</u>	<u>\$ 1,348,247</u>

22 Bank Overdraft And Short-Term Loans

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 14,777	\$ 15,071	Bank overdraft (i)	\$ 15,071	\$ 14,777
<u>935,928</u>	<u>838,074</u>	Short-term loans (ii)	<u>838,074</u>	<u>935,928</u>
<u>\$ 950,705</u>	<u>\$ 853,145</u>		<u>\$ 853,145</u>	<u>\$ 950,705</u>

- (i) The bank overdraft is an amount for cheques written which have not yet been drawn on the bank account.
- (ii) Short-term loans are unsecured with effective interest rates ranging from 1.42% to 2.11% (2003: 1.69% to 3.20%) per annum. They have varying maturity dates of 60 to 180 days.

23 Financial Instruments

Fair values

The carrying amount of the following assets and liabilities approximate to their fair values: cash, investments, trade receivables and payables, other receivables and payables and short-term borrowings.

24 Minority Interest

The minority interest balance was not disclosed in the balance sheet since this was a debit balance at the 2004 and 2003 year-end.

The minority interest balance was not disclosed in the income statement since this balance was immaterial for the years 2004 and 2003.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

25 Contingent Liabilities

(i) Housing loan guarantee

The Group has guaranteed mortgage housing loans amounting to approximately \$24,325 (2003: \$27,099) made by various financial institutions to its employees participating in the housing aid scheme operated by the Group.

(ii) Contractors' claims

Contractors' claims against the Group amounted to \$13,500 (2003: \$4,000).

The Group disputes both the quantum and bases for these claims. The determination of the outcome of these claims is unpredictable and accordingly, no provision in respect of the above matters have been made in these financial statements.

(iii) Litigation

In April 2000, proceedings were commenced against Petrotrin in the High Court of Trinidad & Tobago. The proceedings relate to an alleged breach of a letter of agreement, in which Alliance Capital Markets Limited are claiming a substantial amount. The Company is vigorously defending these proceedings as it disputes not only the quantum and bases for those claims which are dependent on an action being mounted against a third party, but also its status as a party to these proceedings. The ultimate outcome of these proceedings cannot be ascertained at this time. However, based on the current knowledge of the applicable law and facts and taking into consideration the opinion of the Company's legal advisers that the allegations and the claims against the Company lack merit and that the Company should prevail in this matter. Management believes that this litigation should not have a material adverse effect on the Company's financial statements or its business operations.

(iv) Severance payments

The Group has several union agreements which provide for severance payments on the retrenchment of any member who has one or more years of service. If and when such retrenchment occurs the Group shall negotiate with the union the amount of severance to be paid which will be in addition to any other benefits to which the employee may be entitled. No provision has been made for such a contingent liability in these financial statements.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

26 Commitments

(i) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
\$ 152,294	\$ 142,936	Property, plant and equipment	\$ 142,936	\$ 152,294

(ii) Operating lease commitments – where a Group Company is the lessee

The Group leases certain drilling equipment under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The group also leases various plant and machinery under cancelable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

\$ 37,644	\$ 37,645	Not later than 1 year	\$ 37,645	\$ 37,644
<u>53,215</u>	<u>15,524</u>	Later than 1 year and no later than 5 years	<u>15,524</u>	<u>53,215</u>
<u>\$ 90,859</u>	<u>\$ 53,169</u>		<u>\$ 53,169</u>	<u>\$ 90,859</u>

(iii) Sales commitments

The Group has entered into long-term sales contracts with a number of its customers. As at the balance sheet date these amounted to approximately \$3,369,940 (2003: \$2,753,005).

(iv) Purchases commitments

The Group has entered into purchase contracts with suppliers. As at the balance sheet date these amounted to nil (2003: \$53,426).

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Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

27 Related Party Transactions

The following transactions were carried out with related parties:

Parent		Consolidated	
September 30		September 30	
2003	2004	2004	2003
i) Sales of goods and services			
Sales of goods and services			
\$ 2,192	\$ 646	\$ 646	\$ 2,192
<u>50,845</u>	<u>23,951</u>	<u>--</u>	<u>--</u>
Joint Venture parties Subsidiary – Trintomar			
Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%. Goods are sold on the basis of the price lists in force with non-related parties.			
ii) Purchases of goods and services			
Purchases of goods			
\$ 637	\$ 3,604	\$ 3,604	\$ 637
<u>53,561</u>	<u>59,037</u>	<u>--</u>	<u>--</u>
Joint Venture parties Subsidiary – Trintomar			
Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%. Goods are bought on the basis of the price lists in force with non-related parties.			
iii) Year-end balances arising from sales/purchases of goods/services			
Receivables from related parties			
\$ 18,495	\$ 11,421	\$ --	\$ --
<u>2,169</u>	<u>--</u>	<u>--</u>	<u>2,169</u>
Subsidiary – Trintomar Subsidiary – Trinserv			
<u>\$ 20,664</u>	<u>\$ 11,421</u>	<u>\$ --</u>	<u>\$ 2,169</u>
Payables to related parties			
\$ 3,409	\$ 3,409	\$ 3,409	\$ 3,409
<u>19,813</u>	<u>14,819</u>	<u>--</u>	<u>--</u>
Subsidiary – TNA Subsidiary – Trintomar			
<u>\$ 23,222</u>	<u>\$ 18,228</u>	<u>\$ 3,409</u>	<u>\$ 3,409</u>
iv) Directors' remuneration			
<u>\$ 519</u>	<u>\$ 224</u>	<u>\$ 224</u>	<u>\$ 519</u>
Directors' remuneration			

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued) September 30 2004

(Expressed in Thousands of Trinidad and Tobago dollars)

28 Interest in Joint Ventures

The Group has a shared control in the following ventures:

	Parent and Consolidated September 30	
	2004	2003
	Effective Interest	Effective Interest
Block 9 – Offshore	19.50%	19.50%
Block 25A – Offshore	--	5.00%
Block 27 – Offshore	5.00%	5.00%
Brighton Marine – Sub-Area A	35.00%	35.00%
Central Farmout Block	35.00%	35.00%
East Brighton Farmout Block	30.00%	30.00%
Gulf of Paria East	50.00%	50.00%
Moruga West	40.00%	40.00%
Pointe Ligoure	50.00%	50.00%
South East Coast Consortium	4.00%	4.00%
South West Peninsula	27.50%	27.50%
Parrylands ‘E’ Block	25.00%	25.00%
Eastern Block	35.00%	35.00%

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

The following amounts represent the Group's share of the assets and liabilities and revenue and expenses of the joint ventures and are included in the consolidated balance sheet and income statements.

Parent September 30			Consolidated September 30	
2003	2004		2004	2003
		Assets		
\$ 607,500	\$ 670,897	Property, plant and equipment	\$ 670,897	\$ 607,500
<u> --</u>	<u> 1,046</u>	Current assets	<u> 1,046</u>	<u> --</u>
<u>\$ 607,500</u>	<u>\$ 671,943</u>		<u>\$ 671,943</u>	<u>\$ 607,500</u>
		Liabilities		
<u> --</u>	<u> 32,609</u>	Accrued liabilities	<u> 32,609</u>	<u> --</u>
<u>\$ 607,500</u>	<u>\$ 639,334</u>		<u>\$ 639,334</u>	<u>\$ 607,500</u>
<u>\$ 440,943</u>	<u>\$ 633,015</u>	Sales	<u>\$ 633,015</u>	<u>\$ 440,943</u>
\$ 367,448	\$ 471,361	Profit before tax	\$ 471,361	\$ 367,448
<u>(171,970)</u>	<u>(247,431)</u>	Income taxes	<u>(247,431)</u>	<u>(171,970)</u>
<u>\$ 195,478</u>	<u>\$ 223,930</u>	Profit after tax	<u>\$ 223,930</u>	<u>\$ 195,478</u>

Capital commitments for the various joint ventures are \$32,839 (2003: \$18,844). There are no contingencies related to the Group's interest in the joint ventures. The average number of employees in the joint ventures in 2004 was 80 (2003: 89).

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Notes To The Consolidated Financial Statements (Continued)

September 30 2004

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29 Cash Generated From Operations

Reconciliation of profit before tax to cash generated from operations:

Parent			Consolidated	
September 30			September 30	
2003	2004		2004	2003
		Operating Activities		
\$ 1,725,624	\$ 1,305,529	Profit before tax	\$ 1,344,895	\$ 1,755,999
		Adjustments for:		
39,643	57,113	Amortisation of intangible assets	57,113	39,643
--	(813)	Write back of dismantled assets	(813)	--
567,402	687,349	Depletion and depreciation	691,779	568,843
47,986	8,281	Foreign currency translation	8,178	48,623
275,040	297,590	Interest expense	304,868	282,647
--	(123,698)	Gain on early extinguishment of loan	(123,698)	--
(5,662)	(8,545)	Investment income	(9,583)	(6,181)
(40,774)	--	Reversal of impairment of long-term loan receivable	--	(40,774)
75,920	19,883	Loss on disposal of property, plant and equipment	19,883	75,920
(702,500)	(200)	Pension income	(200)	(702,500)
31,370	46,400	Post-employment medical benefit expenses	46,400	31,370
475,462	572,484	Taxation other than income taxes	579,526	480,338
		Changes in working capital:		
(212,413)	(384,489)	Accounts receivable	(382,825)	(223,359)
(192,485)	(194,640)	Inventories	(194,500)	(192,661)
<u>335,283</u>	<u>309,650</u>	Other liabilities	<u>314,661</u>	<u>322,422</u>
<u>\$ 2,419,896</u>	<u>\$ 2,591,894</u>	Cash Generated From Operations	<u>\$ 2,655,684</u>	<u>\$ 2,440,330</u>

In the cash flow statement, proceeds from sale of property plant and equipment comprise:

\$ 76,961	\$ 20,004	Net book amount (Note 6)	\$ 20,004	\$ 76,961
<u>(75,920)</u>	<u>(19,883)</u>	Loss on disposal of property, plant and equipment	<u>(19,883)</u>	<u>(75,920)</u>
<u>\$ 1,041</u>	<u>\$ 121</u>	Proceeds from sale of property, plant and equipment	<u>\$ 121</u>	<u>\$ 1,041</u>