

Petroleum Company of Trinidad and Tobago Limited

Consolidated Financial Statements

September 30 2005

Petroleum Company of Trinidad and Tobago Limited

Contents	Page
Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Income Statement	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Accounting Policies	6 - 18
Notes to the Consolidated Financial Statements	19 - 49

Auditors' Report

To the shareholders 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 at September 30, 2005 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 49. 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 at September 30, 2005 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 17, 2006

Petroleum Company of Trinidad and Tobago Limited

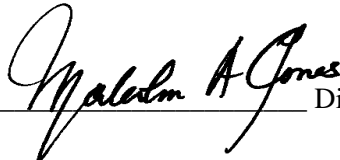
Consolidated Balance Sheet

(Expressed in Thousands of Trinidad and Tobago dollars)

Parent			Consolidated	
September 30	September 30	Notes	September 30	September 30
2004	2005		2005	2004
ASSETS				
Non-current assets				
\$ 6,017,697	\$ 6,673,924	Property, plant and equipment	\$ 6,692,336	\$ 6,033,037
276,584	286,995	Intangible assets	286,995	276,584
847,500	1,197,200	Retirement benefit asset	1,197,200	847,500
11,646	--	Investments - held to maturity	--	11,646
4,970	4,731	Investments - available for sale	4,731	4,970
2,287	2,287	Investments in subsidiaries	2,284	2,284
897,230	397,914	Deferred tax assets	564,281	1,087,714
<u>744,522</u>	<u>744,522</u>	Taxes recoverable	<u>744,699</u>	<u>747,735</u>
8,802,436	9,307,573		9,492,526	9,011,470
Current assets				
1,332,911	2,348,275	Inventories	2,348,655	1,333,295
1,046	19,062	Loans receivable	19,062	1,046
1,931,128	2,710,439	Receivables and prepayments	2,717,235	1,930,022
<u>885,180</u>	<u>1,268,592</u>	Cash and cash equivalents	<u>1,327,073</u>	<u>968,727</u>
4,150,265	6,346,368		6,412,025	4,233,090
<u>\$12,952,701</u>	<u>\$15,653,941</u>	Total assets	<u>\$15,904,551</u>	<u>\$13,244,560</u>
EQUITY AND LIABILITIES				
Shareholders' Equity				
\$ 2,272,274	\$ 2,272,274	Share capital	\$ 2,272,274	\$ 2,272,274
<u>2,312,192</u>	<u>3,822,827</u>	Retained earnings	<u>3,924,520</u>	<u>2,457,936</u>
4,584,466	6,095,101		6,196,794	4,730,210
Non-current liabilities				
1,128,418	825,245	Borrowings	911,314	1,227,362
2,313,066	2,666,731	Deferred tax liabilities	2,666,731	2,313,368
345,240	553,800	Retirement benefit obligation	553,800	345,240
<u>1,120,801</u>	<u>1,105,460</u>	Provisions	<u>1,177,520</u>	<u>1,176,590</u>
4,907,525	5,151,236		5,309,365	5,062,560
Current liabilities				
1,754,686	2,980,407	Trade and other payables	2,971,195	1,745,766
545,284	238,828	Taxation payable	238,828	545,284
307,595	302,875	Borrowings	302,875	307,595
853,145	885,494	Bank overdraft and short-term loans	885,494	853,145
<u>3,460,710</u>	<u>4,407,604</u>		<u>4,398,392</u>	<u>3,451,790</u>
<u>\$12,952,701</u>	<u>\$15,653,941</u>	Total equity and liabilities	<u>\$15,904,551</u>	<u>\$13,244,560</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 49 form an integral part of these financial statements.

On January 17, 2006 the Board of Directors of Petroleum Company of Trinidad and Tobago Limited authorised these financial statements for issue.


Director


Director

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	
2004	2005	Notes	2005	2004
\$ 12,325,314	\$19,997,727		\$19,997,727	\$12,325,314
<u>(8,390,445)</u>	<u>(12,717,975)</u>		<u>(12,684,839)</u>	<u>(8,356,702)</u>
3,934,869	7,279,752		7,312,888	3,968,612
<u>54,368</u>	<u>46,687</u>		<u>84,692</u>	<u>84,433</u>
3,989,237	7,326,439		7,397,580	4,053,045
(6,486)	(9,433)		(9,433)	(6,486)
(901,566)	(1,224,824)		(1,225,510)	(902,042)
<u>(1,610,309)</u>	<u>(2,222,914)</u>		<u>(2,304,183)</u>	<u>(1,628,035)</u>
1,470,876	3,869,268	20	3,858,454	1,516,482
<u>(165,347)</u>	<u>(250,090)</u>	22	<u>(257,031)</u>	<u>(171,587)</u>
1,305,529	3,619,178		3,601,423	1,344,895
<u>(816,509)</u>	<u>(2,108,543)</u>	23	<u>(2,134,839)</u>	<u>(843,935)</u>
<u>\$ 489,020</u>	<u>\$ 1,510,635</u>		<u>\$ 1,466,584</u>	<u>\$ 500,960</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 49 form an integral part of these financial statements.

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 2004	\$ 2,272,274	\$ 2,312,192	\$ 4,584,466
Net profit	—	1,510,635	1,510,635
Balance at September 30 2005	<u>\$ 2,272,274</u>	<u>\$ 3,822,827</u>	<u>\$ 6,095,101</u>
Consolidated			
Balance at September 30 2004	\$ 2,272,274	\$ 2,457,936	\$ 4,730,210
Net profit	—	1,466,584	1,466,584
Balance at September 30 2005	<u>\$ 2,272,274</u>	<u>\$ 3,924,520</u>	<u>\$ 6,196,794</u>
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 49 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	
2004	2005	Notes	2005	2004
Operating activities:				
\$ 2,284,742	\$ 4,782,023	Cash generated from operations 30	\$ 4,789,812	\$ 2,348,532
(904,345)	(3,079,507)	Tax paid	(3,099,617)	(913,619)
(72,305)	(99,600)	Pension contributions paid	(99,600)	(72,305)
(15,500)	(23,840)	Post-employment medical benefits paid	(23,840)	(15,500)
<u>1,292,592</u>	<u>1,579,076</u>	Net cash from operating activities	<u>1,566,755</u>	<u>1,347,108</u>
Investing activities:				
(494,700)	(807,230)	Additions to property, plant and equipment	(809,063)	(492,947)
(7,937)	(21,014)	Additions to intangible assets	(21,014)	(7,937)
121	17	Proceeds from disposal of property, plant and equipment	17	121
25,023	11,646	Investments - held to maturity	11,646	25,023
1,579	239	Investments - available for sale	239	1,579
(3)	--	Investment in subsidiaries	--	(3)
(1,046)	(18,016)	Loan granted to related party	(18,016)	(1,046)
7,691	32,494	Interest received	34,540	8,729
<u>(469,272)</u>	<u>(801,864)</u>	Net cash used in investing activities	<u>(801,651)</u>	<u>(466,481)</u>
Financing activities:				
(231,632)	(245,173)	Repayment of advances for project funding	(245,173)	(231,632)
(58,790)	(67,118)	Repayment of other long-term loans	(80,076)	(58,790)
(96,064)	42,590	Proceeds from short-term loans	42,590	(96,064)
(166,511)	(113,858)	Interest paid	(113,858)	(166,511)
<u>(552,997)</u>	<u>(383,559)</u>	Net cash used in financing activities	<u>(396,517)</u>	<u>(552,997)</u>
270,323	393,653	Increase in cash and cash equivalents	368,587	327,630
599,786	870,109	Cash and cash equivalents at start of year 13	953,656	626,026
<u>\$ 870,109</u>	<u>\$ 1,263,762</u>	Cash and cash equivalents at end of year 13	<u>\$ 1,322,243</u>	<u>\$ 953,656</u>

The accounting policies on pages 6 to 18 and the notes on pages 19 to 49 form an integral part of these financial statements.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies

September 30 2005

(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 investments. 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 Guideline (AcG) - 16 Oil and Gas Accounting – Full Cost.

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 Change in accounting policy

- (1) Effective October 1, 2004 the Group adopted AcG - 16. This accounting guideline replaced AcG - 5, Full Cost Accounting in the Oil and Gas Industry. AcG - 16 modifies how the ceiling test calculation is performed. The recoverability of a cost center is tested by comparing the carrying value of the cost center. If the carrying value is not recoverable the cost center is written down to its fair value. The cash flows were estimated using average prices and costs. Adopting AcG - 16 had no effect on the Group's financial results.
- (2) In accordance with International Financial Reporting Standard (IFRS) No.3, Business Combinations, the Company ceased amortising goodwill on its assets purchased from Trinmar Joint Venture as of October 1, 2004.

C 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.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

C Consolidation (Continued)

(1) Subsidiaries (Continued)

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 F for the accounting policy on goodwill.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized 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.

(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 recognizes 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 recognize 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 realizable value of current assets or an impairment loss.

D 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 effect of the underlying transactions, events and conditions 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

E 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 include 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

E 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. Repairs and maintenance other than major inspection and overhaul costs 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

E 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 costs	- 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.

F 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 identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

G 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).

H Investments

The Group classifies its investments in the following categories: held to maturity, available for sale and trading. 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) *Investments- held to maturity*

Investments held to maturity 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 twelve months from the balance sheet date, which are classified as current assets.

(b) *Investments- available for sale*

Investments available for sale 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 twelve 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.

Petroleum Company of Trinidad and Tobago Limited

Accounting Policies (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

H 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. Investments available for sale are subsequently carried at fair value. Investments held to maturity 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.

At each balance sheet date the Group assesses 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 investments available for sale, 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

I 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.

J 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.

K 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.

L 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

M 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 realized 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 utilized.

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.

N 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 unrecognized 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

N 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.

O 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. 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

P Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, sales taxes, 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.

Q 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.

R 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

S Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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 risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

S 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 2005

(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 Property, Plant and Equipment

Parent

Year ended September 30, 2005	Major Inspection and Overhaul			Total
	Costs	Production Assets	Manufacturing Assets	
At start of year	\$ 468,883	\$10,445,399	\$ 3,610,209	\$14,524,491
Additions	40,985	1,126,205	250,460	1,417,650
Revised dismantlement cost estimates	--	(139,892)	13,870	(126,022)
Disposals	--	(10,885)	(4,908)	(15,793)
At end of year	<u>509,868</u>	<u>11,420,827</u>	<u>3,869,631</u>	<u>15,800,326</u>
Accumulated depletion, depreciation and amortisation				
At start of year	\$ 342,858	\$ 6,458,857	\$ 1,705,079	\$ 8,506,794
Charge for the year	66,782	405,071	155,130	626,983
Disposals	--	(2,480)	(4,895)	(7,375)
At end of year	<u>409,640</u>	<u>6,861,448</u>	<u>1,855,314</u>	<u>9,126,402</u>
Net Book Value				
As at September 30, 2005	<u>\$ 100,228</u>	<u>\$ 4,559,379</u>	<u>\$ 2,014,317</u>	<u>\$ 6,673,924</u>
As at September 30, 2004	<u>\$ 126,025</u>	<u>\$ 3,986,542</u>	<u>\$ 1,905,130</u>	<u>\$ 6,017,697</u>

Depletion, depreciation and amortisation expense of \$626,983 (2004: \$687,349) has been charged in other operating expenses.

Petroleum Company of Trinidad and Tobago Limited

Notes To the Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

2 Property, Plant and Equipment (Continued)

Consolidated

	Major Inspection and Overhaul Costs	Production Assets	Manufacturing Assets	Total
Year ended September 30, 2005				
Cost				
At start of year	\$ 468,883	\$ 11,120,458	\$ 3,610,250	\$ 15,199,591
Additions	40,985	1,128,098	250,460	1,419,543
Revised dismantlement cost estimates	--	(131,989)	13,870	(118,119)
Disposals	--	(10,885)	(4,908)	(15,793)
At end of year	<u>509,868</u>	<u>12,105,682</u>	<u>3,869,672</u>	<u>16,485,222</u>
Accumulated depletion, depreciation and amortisation				
At start of year	\$ 342,858	\$ 7,118,617	\$ 1,705,079	\$ 9,166,554
Charge for the year	66,782	411,795	155,130	633,707
Disposals	--	(2,480)	(4,895)	(7,375)
At end of year	<u>409,640</u>	<u>7,527,932</u>	<u>1,855,314</u>	<u>9,792,886</u>
Net Book Value				
As at September 30, 2005	<u>\$ 100,228</u>	<u>\$ 4,577,750</u>	<u>\$ 2,014,358</u>	<u>\$ 6,692,336</u>
As at September 30, 2004	<u>\$ 126,025</u>	<u>\$ 4,001,841</u>	<u>\$ 1,905,171</u>	<u>\$ 6,033,037</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 \$255,630 (2004: \$420,016) in respect of dismantlement costs. Included in manufacturing assets is a net amortised amount of \$63,841 (2004: \$61,476) in respect of dismantlement costs.

Included above is work in progress of \$1,163,026 (2004: \$552,471).

Depletion, depreciation and amortisation expense of \$633,707 (2004: \$691,779) has been charged in other operating expenses.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

2 Property, Plant and Equipment (Continued)

General and administrative costs capitalised during the year totaled \$3,500 (2004: \$ nil). Costs excluded from costs subject to depletion calculation totaled \$83,799 (2004: \$25,850).

Depletion is calculated using the unit of production method. Gas is expressed in barrels of oil equivalent based on British Thermal Unit (BTU) content of 5.8 thousand standard cubic feet (mscf) of gas per barrel of oil.

The impairment test was calculated based on an average per barrel oil price for the year of US\$54.52* (2004: US\$36.64*). No write down was required for the year ended September 30, 2005.

3 Intangible Assets

Parent and Consolidated	Goodwill	Software Costs	Total
Year ended			
September 30, 2005			
Cost			
At start of year	\$ 383,159	\$ 63,626	\$ 446,785
Additions	—	21,014	21,014
Cost at end of year	383,159	84,640	467,799
Accumulated amortization			
At start of year	133,036	37,165	170,201
Charge for the year	—	10,603	10,603
At end of year	133,036	47,768	180,804
Net Book Value			
As at			
September 30, 2005	\$ 250,123	\$ 36,872	\$ 286,995
As at			
September 30, 2004	\$ 250,123	\$ 26,461	\$ 276,584

Amortisation of \$10,603 (2004: \$57,113) has been charged in other operating expenses.

As of October 1, 2004, in accordance with International Financial Reporting Standard (IFRS) No.3, Business Combinations, the Group ceased amortising goodwill from the purchase of the Trinmar Joint Venture assets. In accordance with International Accounting Standard No. 36, Impairment of Assets, the test for the impairment of goodwill was calculated based on the average prices for the year of US\$38.86* (2004: US\$26.75*), per barrel for oil and US\$1.08 (2004: US\$1.06)* per mscf of natural gas.

*Oil and gas prices are not expressed in thousands of dollars.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

3 Intangible Assets (Continued)

Goodwill is allocated to the Group's cash-generating unit, Trinmar Operations. The recoverable amount of the Trinmar Operations oil and gas reserves was based on the value in use as at September 30, 2005. Management made the following estimates and assumptions regarding this value:

- the discounted future cash flows were discounted using a rate of 15% per annum;
- the time horizon used for the valuation of the reserves was 40 years;
- supplemental petroleum taxes and other taxes were calculated at prevailing rates;
- the cash flow projections were based on constant prices and constant costs .

The impairment test revealed that this asset was not impaired as at September 30, 2005 and consequently no write down of goodwill is required.

4 Retirement Benefit Asset/(Obligation)

		Parent and Consolidated September 30	
Balance sheet asset/(obligation) for:		2005	2004
Pension benefits	(i)	\$ 1,197,200	\$ 847,500
Post employment medical benefits	(ii)	<u>(553,800)</u>	<u>(345,240)</u>
		<u>\$ 643,400</u>	<u>\$ 502,260</u>
Income statement credit/(charge) for:			
Pension benefits	(i)	\$ 250,100	\$ 200
Post employment medical benefits	(ii)	<u>(232,400)</u>	<u>(46,400)</u>
		<u>\$ 17,700</u>	<u>\$ (46,200)</u>

(i) Pension benefits

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

Present value of funded obligations	\$(4,911,500)	\$(4,655,100)
Fair value of plan assets	<u>7,844,000</u>	<u>7,036,300</u>
	2,932,500	2,381,200
Unrecognised actuarial gains	(1,480,600)	(1,240,800)
Un-utilisable assets	<u>(254,700)</u>	<u>(292,900)</u>
Asset in the balance sheet	<u>\$ 1,197,200</u>	<u>\$ 847,500</u>

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

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

4 Retirement Benefit Asset/(Obligation) (Continued)

(i) Pension benefits (Continued)

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

	Parent and Consolidated September	
	2005	2004
Current service cost	\$ (121,200)	\$ (102,800)
Interest cost	(293,900)	(281,100)
Expected return on plan assets	593,100	455,100
Amortised gains	49,000	133,600
Past service cost	(15,100)	(47,000)
Net actuarial gains/(losses) recognised in the year	<u>38,200</u>	<u>(157,600)</u>
Total (Note 20)	<u>\$ 250,100</u>	<u>\$ 200</u>

Of the total, the Company's contribution to the pension plans of \$36,413 (2004: \$30,258) and \$54,001 (2004: \$44,772) have been charged to cost of sales and administrative expenses respectively.

The actual return on the plan assets was \$928,000 (2004: \$1,759,700).

Movement in the asset recognised in the balance sheet:

At start of year	\$ 847,500	\$ 774,995
Total income	250,100	200
Contributions paid	<u>99,600</u>	<u>72,305</u>
At end of year	<u>\$1,197,200</u>	<u>\$ 847,500</u>

(ii) Post-employment medical benefits

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

Present value of funded obligations	\$ (768,400)	\$ (541,800)
Unrecognised actuarial losses	<u>214,600</u>	<u>196,560</u>
Liability in balance sheet	<u>\$ (553,800)</u>	<u>\$ (345,240)</u>
The amounts recognised in the income statement were as follows:		
Current service cost	\$ (17,200)	\$ (10,400)
Interest cost	(34,300)	(29,600)
Amortised net loss	(10,500)	(6,400)
Prior year service cost	(134,700)	--
Current year service cost	<u>(35,700)</u>	<u>--</u>
Total (Note 20)	<u>\$ (232,400)</u>	<u>\$ (46,400)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

4 Retirement Benefit Asset/(Obligation) (Continued)

The total charge of \$232,400 (2004: \$46,400) has been charged in administrative expenses. Included in the amount recognised in the Parent's income statement for 2005 is a charge of \$134,700 to retained earnings, which is a cumulative adjustment for the period 2000 to 2004, due to an understatement in prior years of the retirees' medical costs. Had the prior year's results been restated, retained earnings of \$2,177,492 and \$1,727,372 would have been reported for the Parent at September 30, 2004 and September 30, 2003 respectively.

Movement in the liability recognised in the balance sheet:

	Parent and Consolidated	
	September 30	
	2005	2004
At start of year	\$ (345,240)	\$ (314,340)
Total cost	(232,400)	(46,400)
Contributions paid	<u>23,840</u>	<u>15,500</u>
At end of year	<u>\$ (553,800)</u>	<u>\$ (345,240)</u>

The principal actuarial assumptions were as follows:

Discount rate – active members and deferred pensioners	7.25% pa	6.50% pa
Discount rate – current pensioners	7.25% pa	6.50% pa
Expected Return on Plan Assets (net investment expenses)	9.00% pa	8.50% pa
Future salary increases	6.50% pa	5.50% pa
Medical expenses inflation	6.00% pa	5.50% pa

5 Investments - Held To Maturity

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
<u>\$ 11,646</u>	<u>\$ --</u>	Canadian Wheat Board Bond	<u>\$ --</u>	<u>\$ 11,646</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. The current portion of these bonds totaling \$11,347 (2004: \$24,436) is reported in Cash and Cash Equivalents at year-end.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

6 Investments - Available For Sale

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
		La Brea Industrial Development		
\$ 4,542	\$ 4,542	Company Limited (LABIDCO)	\$ 4,542	\$ 4,542
		Point Fortin LNG Exports Limited		
239	--	(PFLE)	--	239
188	188	Metal Industries Company Limited	188	188
		Lake Asphalt of Trinidad and Tobago		
<u>1</u>	<u>1</u>	(1975) Limited (LATT)	<u>1</u>	<u>1</u>
<u>\$ 4,970</u>	<u>\$ 4,731</u>		<u>\$ 4,731</u>	<u>\$ 4,970</u>

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

7 Investments In Subsidiaries

		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
50	50	Trintoc Services Limited (Trinserv)*	50	50
720	720	Trinidad Northern Areas Limited (TNA)*	720	720
		Petrotrin EAP Services		
<u>1,500</u>	<u>1,500</u>	Limited (PEAPSL)*	<u>1,500</u>	<u>1,500</u>
<u>\$ 2,285</u>	<u>\$ 2,285</u>		<u>\$ 2,284</u>	<u>2,284</u>
<u>2</u>	<u>2</u>	Net advances to subsidiary	<u>--</u>	<u>--</u>
<u>\$ 2,287</u>	<u>\$ 2,287</u>	Total Investments in Subsidiaries	<u>\$ 2,284</u>	<u>\$ 2,284</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.		

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

7 Investments In Subsidiaries (Continued)

Name of Company	Country of Incorporation	Proportion of issued equity capital held
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 was engaged primarily in the provision of marketing information and the purchase of materials on a commission basis through its Miami office, for Petrotrin. This subsidiary ceased operations as of October 1, 2002 and is presently being wound up.		
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 counseling services for employees and third parties.		

8 Deferred Tax Assets/(Liabilities)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 50% (2004: 50%).

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

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
\$(1,149,734)	\$(1,415,836)	At start of year	\$(1,225,654)	\$ (934,446)
<u>(266,102)</u>	<u>(852,981)</u>	Income statement charge (Note 23)	<u>(876,796)</u>	<u>(291,208)</u>
<u>\$(1,415,836)</u>	<u>\$(2,268,817)</u>	At end of year	<u>\$(2,102,450)</u>	<u>\$(1,225,654)</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 totaling approximately \$324,836 (2004: \$1,636,704) to carry forward against future taxable income. These amounts have not been agreed with the Board of Inland Revenue.

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

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

8 Deferred Tax Assets/(Liabilities) (Continued)

Parent	September 30, 2004	(Charged)/ credited to income	September 30, 2005
Deferred income tax assets:			
Tax losses carried forward	\$ 631,979	\$ (631,979)	\$ --
Medical provision	172,620	104,280	276,900
Vacation accrued	45,382	(2,557)	42,825
Bad and doubtful debts	19,981	(19,981)	--
Net interest charge	13,893	64,296	78,189
Exchange loss	6,973	(6,973)	--
Stock provision	6,402	(6,402)	--
	<u>\$ 897,230</u>	<u>\$ (499,316)</u>	<u>\$ 397,914</u>
Deferred income tax liabilities:			
Accelerated tax depreciation	\$ (1,889,316)	\$ (176,159)	\$ (2,065,475)
Pension benefit asset	(423,750)	(174,850)	(598,600)
Exchange gain	--	(2,656)	(2,656)
	<u>\$ (2,313,066)</u>	<u>\$ (353,665)</u>	<u>\$ (2,666,731)</u>
Net deferred income tax liability	<u>\$ (1,415,836)</u>	<u>\$ (852,981)</u>	<u>\$ (2,268,817)</u>
Consolidated			
Deferred income tax assets:			
Tax losses carried forward	\$ 818,352	\$ (655,934)	\$ 162,418
Medical provision	172,620	104,280	276,900
Vacation accrued	45,382	(2,557)	42,825
Bad and doubtful debts	19,981	(19,981)	--
Net interest charge	13,893	64,296	78,189
Exchange loss	6,973	(6,664)	309
Stock provision	6,402	(6,402)	--
Accelerated book depreciation	4,111	(471)	3,640
	<u>\$ 1,087,714</u>	<u>\$ (523,433)</u>	<u>\$ 564,281</u>
Deferred income tax liabilities:			
Accelerated tax depreciation	\$ (1,889,316)	\$ (176,159)	\$ (2,065,475)
Pension benefit asset	(423,750)	(174,850)	(598,600)
Exchange gain	(302)	(2,354)	(2,656)
	<u>\$ (2,313,368)</u>	<u>\$ (353,363)</u>	<u>\$ (2,666,731)</u>
Net deferred income tax liability	<u>\$ (1,225,654)</u>	<u>\$ (876,796)</u>	<u>\$ (2,102,450)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

9 Taxes Recoverable

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

10 Inventories

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
\$ 296,121	\$ 341,866	Materials and supplies	\$ 341,866	\$ 296,121
<u>(23,809)</u>	<u>(38,590)</u>	Less: provision for obsolescence	<u>(38,590)</u>	<u>(23,809)</u>
272,312	303,276		303,276	272,312
317,526	701,441	Crude oil	701,821	317,910
<u>743,073</u>	<u>1,343,558</u>	Refined products	<u>1,343,558</u>	<u>743,073</u>
<u>\$ 1,332,911</u>	<u>\$ 2,348,275</u>		<u>\$ 2,348,655</u>	<u>\$ 1,333,295</u>

The Group recognised an increase of \$ 14,781 (2004: \$1,380) in the provision for obsolescence of its inventories. This increase in the provision has been included in administrative expenses in the income statement.

11 Loans Receivable

		Loan to related company		
\$ 1,046	\$ 5,305	(a) Point Fortin LNG Exports Limited	\$ 5,305	\$ 1,046
<u>--</u>	<u>13,757</u>	(b) World GTL Trinidad Limited	<u>13,757</u>	<u>--</u>
<u>\$ 1,046</u>	<u>\$ 19,062</u>		<u>\$ 19,062</u>	<u>\$ 1,046</u>

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

- (b) By Loan and Security Agreement of September 22, 2005, Petrotrin agreed to lend World GTL the sum of US \$2,200. This amount represents a short-term, interest-bearing loan (15% per annum), which was made in order to finance a portion of the purchase price of critical pieces of equipment. World GTL has provided security interest in the equipment in favor of Petrotrin as security for repayment of the loan.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

12 Receivables And Prepayments

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
\$ 1,598,528	\$ 2,260,104	Trade receivables	\$ 2,263,178	\$ 1,598,595
<u>(40,451)</u>	<u>(41,106)</u>	Less: provision for impairment of trade receivables	<u>(41,106)</u>	<u>(40,451)</u>
<u>1,558,077</u>	<u>2,218,998</u>		<u>2,222,072</u>	<u>1,558,144</u>
372,615	554,831	Other receivables	571,547	382,863
<u>(25,484)</u>	<u>(88,704)</u>	Less: provision for impairment of other receivables	<u>(88,704)</u>	<u>(25,484)</u>
<u>347,131</u>	<u>466,127</u>		<u>482,843</u>	<u>357,379</u>
11,421	12,994	Due from subsidiary company	--	--
<u>14,499</u>	<u>12,320</u>	Prepayments	<u>12,320</u>	<u>14,499</u>
<u>\$ 1,931,128</u>	<u>\$ 2,710,439</u>		<u>\$ 2,717,235</u>	<u>\$ 1,930,022</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 increased its provision for the impairment of its trade receivables by \$655 during the year (2004: reversal of \$5,970). This amount has been included in cost of sales in the income statement.

Included in the provision for impairment of other receivables is an amount for \$61,117 for the inter - company balances as at September 30, 2005, for Trinidad and Tobago Oil Company Limited (TRINTOC) and Trinidad and Tobago Petroleum Company Limited (TRINTOPEC). These companies have continued to operate and incur losses to the extent that their current liabilities have exceeded total assets for each year from 1997 to present, which has led to substantial doubt as to whether these companies would have been able to continue as a going concern without financial support from the related Company, Petrotrin. This amount has been included in administrative expenses.

13 Cash And Cash Equivalents

\$ 7,559	\$ 157,364	Cash at bank and in hand	\$ 209,701	\$ 85,229
<u>877,621</u>	<u>1,111,228</u>	Short-term bank deposits	<u>1,117,372</u>	<u>883,498</u>
<u>\$ 885,180</u>	<u>\$ 1,268,592</u>		<u>\$ 1,327,073</u>	<u>\$ 968,727</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

13 Cash And Cash Equivalents (Continued)

The weighted average effective interest rate on short-term deposits was 4.14 % (2004: 1.53%) and these deposits have an average maturity of three days.

Short-term bank deposits of the Parent include deposits of \$104,785 (2004: \$104,495) held in Trust Accounts as part of the collateral associated with the forward sale contract with the Caribbean Oil Purchase Company Limited (see Note 15 ii). 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:

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
\$ 885,180	\$ 1,268,592	Cash and cash equivalents	\$ 1,327,073	\$ 968,727
<u>(15,071)</u>	<u>(4,830)</u>	Bank overdraft	<u>(4,830)</u>	<u>(15,071)</u>
<u>\$ 870,109</u>	<u>\$ 1,263,762</u>		<u>\$ 1,322,243</u>	<u>\$ 953,656</u>

14 Share Capital

		Authorised		
		300,000,000 ordinary shares of no par value		
		(2004: 300,000,000 ordinary shares of no par value)		
		Issued and fully paid		
		300,000,000 ordinary shares of no par value		
		(2004: 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
Non-Current				
\$ 525,814	\$ 283,714	(i) Project funding	\$ 283,714	\$ 525,814
910,199	844,406	(ii) Forward sale contract	844,406	910,199
<u> --</u>	<u> --</u>	(iii) Other	<u>86,069</u>	<u>98,944</u>
1,436,013	1,128,120		1,214,189	1,534,957
<u>(307,595)</u>	<u>(302,875)</u>	Less: current portion	<u>(302,875)</u>	<u>(307,595)</u>
<u>\$ 1,128,418</u>	<u>\$ 825,245</u>		<u>\$ 911,314</u>	<u>\$ 1,227,362</u>

Non-current borrowings include a secured liability in the sum of \$32,093 (2004: \$38,798). This borrowing is secured by the provision of Government of the Republic of Trinidad and Tobago (GORTT) guarantees.

\$ 1,050,809	\$ 922,366	Total borrowings		
		- at fixed rates	\$ 1,008,435	\$ 1,149,753
<u>385,204</u>	<u>205,754</u>	- at floating rates	<u>205,754</u>	<u>385,204</u>
<u>\$ 1,436,013</u>	<u>\$ 1,128,120</u>		<u>\$ 1,214,189</u>	<u>\$ 1,534,957</u>
		Weighted average effective interest rates:		
7.66%	7.69%	- bank borrowings (medium & long-term)	7.69%	7.66%

Maturity of non-current borrowings:				
\$ 307,595	\$ 302,875	Not later than 1 year	\$ 302,875	\$ 307,595
391,984	203,254	Later than 1 and less than 3 years	203,254	391,984
95,585	100,775	Between 3 and 4 years	100,775	95,585
<u>640,849</u>	<u>521,216</u>	Over 5 years	<u>607,285</u>	<u>739,793</u>
<u>\$ 1,436,013</u>	<u>\$ 1,128,120</u>		<u>\$ 1,214,189</u>	<u>\$ 1,534,957</u>

Borrowing facilities:

As at September 30, 2005, the Company has credit facilities with various foreign and local banking institutions totalling \$2,844,670 (2004: \$2,589,200), of which the sum of \$1,964,006 (2004: \$1,761,148) was unutilised.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(i) Borrowings – Project Funding

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
		(a) Advances from the GORTT		
		- InterAmerican Development Bank (IDB)	\$ 173,661	\$ 346,405
\$ 346,405	\$ 173,661			
		- The Export Import Bank of Japan (EXIMBANK)	11,027	33,961
33,961	11,027			
<u>87,469</u>	<u>53,235</u>	- European Investment Bank (EIB)	<u>53,235</u>	<u>87,469</u>
467,835	237,923		237,923	467,835
		(b) Advances from Caribbean Development Bank (CDB)	32,093	38,798
38,798	32,093			
<u>19,181</u>	<u>13,698</u>	(c) Advances from GORTT EIB - MTBE Project	<u>13,698</u>	<u>19,181</u>
\$ <u>525,814</u>	\$ <u>283,714</u>		\$ <u>283,714</u>	\$ <u>525,814</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 onlent 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(i) Borrowings – Project Funding

(a) Advances from the GORTT (Continued)

Description	Terms and Conditions	Security
IDB		
This loan was entered into on June 25, 1991 for a maximum financing facility of US\$260,000 (TT\$1,634,958) including interest, of which US\$259,916 (TT\$1,634,429) was fully drawn down by December 25, 1996.	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.	Unsecured.
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.	Interest, which is payable semi-annually at rates determined by the IDB, ranged from 7.62% to 7.42% (2004: 7.85% to 7.62%) per annum during the year.	
	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.	

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(i) Borrowings – Project Funding

(a) Advances from the GORTT (Continued)

Description	Terms and Conditions	Security
IDB (Continued)		
The principal outstanding at September 30, 2005 was:	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:	
UOA 17,358,528 equivalent to US\$ 27,616 - TT\$ 173,661		
September 30, 2004 was:	i) The ratio between internal generation of funds and the consolidated total service of its debt is less than 1.5.	
UOA 34,096,727 equivalent to US\$ 55,171 - TT\$ 346,405		
Interest capitalised totalling US\$6,046 (TT\$37,907) was repaid to GORTT on February 21, 2003.	ii) The ratio of its long-term debt to its net worth is more than 0.75.	
	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.	
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\$251,532). This facility was fully drawn down by December 30, 1994. The principal outstanding as at September 30, 2005 was:	The principal is being repaid by twenty-two semi-annual equal installments, in March and September, which commenced September 6, 1995, with the final installment due on March 6, 2006.	Unsecured.
¥ 199,771 - TT\$ 11,027		
September 30, 2004 was:	Interest is paid semi-annually. During the year, the rate varied between 6.5% to 8.7% (2004: 6.5% to 8.7%) per annum.	
¥ 599,483 - TT\$ 33,961		

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(i) Borrowings - Project Funding

(a) Advances from the GORTT (Continued)

Description	Terms and Conditions	Security
EIB		
This loan was entered into on December 12, 1991 for a principal sum of 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, 2005 was:	The principal is being repaid by twenty-two semi-annual installments in June and December of each year, which commenced June 5, 1996, with the final installment due by December 5, 2006.	Unsecured.
US\$ 3,930 - TT\$ 24,715		
¥ 162,209 - TT\$ 8,954	Interest is paid semi-annually.	
£ 1,767 - <u>TT\$ 19,566</u>	During the year, the rate varied between 6% to 8.15% (2004: 6% to 8.15%) per annum.	
		<u>TT\$ 53,235</u>
September 30, 2004 was:		
US\$ 6,387 - TT\$ 40,102		
¥ 263,498 - TT\$ 14,927		
£ 2,871 - <u>TT\$ 32,440</u>		
		<u>TT\$ 87,469</u>

(b) Advances from CDB

Description	Terms and Conditions	Security
This loan was entered into on April 30, 1993 for a principal sum of US\$18,000 (TT\$113,189) to be used on Sub-Project A (see Note 15(a) above). The final disbursement on the facility was made on June 30, 1997. The principal outstanding as at September 30, 2005 was:	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 installment due June 30, 2010.	Guaranteed by the GORTT.
EC\$ 117 - TT\$ 268	Interest is payable quarterly. The bank may increase or decrease the rate of interest and during the year, the rate ranged between 5.75% to 6.00% (2004: 5.5%) per annum.	
US\$ 4,779 - TT\$ 30,050		
and <u>TT\$ 1,775</u>		
		<u>TT\$ 32,093</u>
September 30, 2004 was:		
EC\$ 142 - TT\$ 328	A commitment charge at the rate of 1% per annum was payable on the undisbursed amount of the loan.	
US\$ 5,784 - TT\$ 36,322		
and <u>TT\$ 2,148</u>		
		<u>TT\$ 38,798</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(i) Borrowings - Project Funding

(c) Advances from the GORTT-EIB-MTBE Project

Description	Terms and Conditions	Security
<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 utilized 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, 2005 was:</p> <p>US\$ 1,912 - TT\$ 12,023 ¥ 30,350 - <u>TT\$ 1,675</u> <u>TT\$ 13,698</u></p> <p>September 30, 2004 was:</p> <p>US\$ 2,672 - TT\$ 16,778 ¥ 42,417 - <u>TT\$ 2,403</u> <u>TT\$ 19,181</u></p>	<p>The loan is being repaid by twenty-four semi-annual equal installments in April and October of each year, which commenced October 5, 1997, with the final installment 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>	Unsecured.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(ii) Forward Sale Contract

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
		Caribbean Oil Purchase Company Limited (COPCO)		
\$ 910,199	\$ 844,406		\$ 844,406	\$ 910,199

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.		
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.	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.	

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(ii) 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>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>	<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>	

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(ii) 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

15 Borrowings (Continued)

(iii) Other

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
\$ --	\$ --	The National Gas Company of Trinidad and Tobago Limited	\$ 86,069	\$ 98,944

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 is an interest free unsecured loan with no fixed terms of repayment.

16 Provisions

Dismantlement Costs

\$ 807,369	\$ 1,120,801	At start of year	\$ 1,176,590	\$ 855,880
253,447	(126,022)	Revised costs estimates	(118,119)	253,447
60,798	111,360	Charge to income statement		
		- Finance charge	119,728	68,076
		- Write back of dismantlement provision	(679)	(813)
<u>(813)</u>	<u>(679)</u>			
<u>\$ 1,120,801</u>	<u>\$ 1,105,460</u>	At end of year	<u>\$ 1,177,520</u>	<u>\$ 1,176,590</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 \$1,177,520 has been recognised for dismantlement costs. These costs are expected to be incurred within 4 to 25 years of the current year. The provision has been estimated using existing technology, at current prices, and discounted using a money discount rate of 15% (2004: 15%) per annum.

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

17 Trade And Other Payables

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
\$ 1,128,866	\$ 1,943,662	Trade payables	\$ 1,942,632	\$ 1,133,214
		Due to Government		
		of Trinidad & Tobago		
110,474	239,521	- Royalties	241,167	111,545
93,353	204,765	- Taxes other than income taxes	205,081	93,833
14,819	10,144	Due to subsidiary company	--	--
268,311	399,604	Benefits due to employees	399,604	268,311
<u>138,863</u>	<u>182,711</u>	Other payables	<u>182,711</u>	<u>138,863</u>
<u>\$ 1,754,686</u>	<u>\$ 2,980,407</u>		<u>\$ 2,971,195</u>	<u>\$ 1,745,766</u>

18 Bank Overdraft And Short-Term Loans

\$ 15,071	\$ 4,830	Bank overdraft (i)	\$ 4,830	\$ 15,071
<u>838,074</u>	<u>880,664</u>	Short-term loans (ii)	<u>880,664</u>	<u>838,074</u>
<u>\$ 853,145</u>	<u>\$ 885,494</u>		<u>\$ 885,494</u>	<u>\$ 853,145</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 3.88% to 4.03% (2004: 1.42% to 2.11%) per annum. They have varying maturity dates of 30 to 60 days.

19 Other Operating Income

\$ 50,156	\$ 42,418	Marine income	\$ 42,418	\$ 50,156
<u>4,212</u>	<u>4,269</u>	Processing fees	<u>42,274</u>	<u>34,277</u>
<u>\$ 54,368</u>	<u>\$ 46,687</u>		<u>\$ 84,692</u>	<u>\$ 84,433</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

20 Operating Profit

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

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
\$ 1,091,986	\$1,358,495	Employee benefits expense (excluding retirement benefits) (Note 21)	\$ 1,365,785	\$1,097,152
(161,052)	(984,400)	Movement in inventories (included in 'Cost of Sales')	(984,396)	(160,987)
687,349	626,983	Depletion, depreciation and amortisation	633,707	691,779
295,859	315,128	Materials expenditure	320,000	300,313
(200)	(250,100)	Pension income (Note 4)	(250,100)	(200)
46,400	232,400	Other post-employment benefits (Note 4)	232,400	46,400
209,785	175,493	Operating lease rental	175,493	209,785
(5,648)	68,583	Charge/(reversal) for bad and doubtful debts	68,583	(5,648)
36,497	49,621	Repairs and maintenance	52,108	41,233
1,380	14,781	Increase in provision for inventory obsolescence	14,781	1,380
57,113	10,603	Amortisation of intangible assets (Note 3)	10,603	57,113
19,883	8,401	Loss on disposal of property, plant and equipment	8,401	19,883
8,281	(4,398)	(Gain)/loss on foreign currency exchange	(4,477)	8,178
1,098	1,111	Directors' remuneration	1,111	1,098

21 Employee Benefits Expense (Excluding retirement benefits)

\$ 702,147	\$ 776,428	Salaries and wages benefits	\$ 783,718	\$ 707,313
132,241	250,012	Allowances	250,012	132,241
109,896	136,928	Overtime	136,928	109,896
43,898	73,506	Other personnel costs	73,506	43,898
41,889	41,300	Medical services	41,300	41,889
9,459	19,393	Travel plan	19,393	9,459
10,282	17,847	Voluntary Selective Separation Plan	17,847	10,282
13,560	16,409	Housing aid	16,409	13,560
13,675	15,207	Savings plan	15,207	13,675
14,939	11,465	National Insurance	11,465	14,939
<u>\$ 1,091,986</u>	<u>\$ 1,358,495</u>		<u>\$ 1,365,785</u>	<u>\$ 1,097,152</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

21 Employee Benefits Expense (Excluding retirement benefits) (Continued)

Parent			Consolidated	
September 30	September 30		September 30	September 30
2004	2005		2005	2004
Average number of persons employed by the Group during the year:				
4,062	4,186	Full time	4,186	4,062
737	676	Temporary	676	737
<u>207</u>	<u>260</u>	Contract / Trainees	<u>260</u>	<u>207</u>

22 Finance Costs -Net

\$ (236,792)	\$ (171,224)	Finance costs - bank borrowings	\$ (171,843)	\$ (236,792)
(60,798)	(111,360)	Finance costs - dismantlement	(119,728)	(68,076)
8,545	32,494	Investment income	34,540	9,583
<u>123,698</u>	<u>--</u>	Gain on early debt extinguishment	<u>--</u>	<u>123,698</u>
<u>\$ (165,347)</u>	<u>\$ (250,090)</u>		<u>\$ (257,031)</u>	<u>\$ (171,587)</u>

23 Tax

\$ (535,647)	\$(1,255,562)	Current tax	\$(1,258,043)	\$ (537,968)
(14,760)	--	Prior year under provision	--	(14,760)
(203,624)	(852,981)	Deferred tax – current year	(876,796)	(228,729)
<u>(62,478)</u>	<u>--</u>	Deferred tax – prior years	<u>--</u>	<u>(62,478)</u>
<u>\$ (816,509)</u>	<u>\$(2,108,543)</u>		<u>\$(2,134,839)</u>	<u>\$ (843,935)</u>

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

23 Tax (Continued)

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
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>\$ 1,305,529</u>	<u>\$ 3,619,178</u>	Profit before tax	<u>\$ 3,601,423</u>	<u>\$ 1,344,895</u>
\$ (652,765)	\$(1,809,589)	Tax calculated at a tax rate of 50%	\$(1,800,712)	\$ (672,448)
		Permanent differences		
62,048	26,383	- Income not subject to tax	399	62,048
		- Expenses not deductible for tax purposes		
(42,294)	(105,406)	- Effect of difference on initial recognition of asset	(109,591)	(46,138)
(29,357)	(29,908)	- Green fund levy	(32,431)	(30,936)
(12,488)	(20,271)	- Prior year under provision	(20,356)	(12,576)
(14,760)	--	- Prior year deferred tax	--	(14,760)
(62,478)	--	- Unemployment levy	--	(62,478)
<u>(64,415)</u>	<u>(169,752)</u>		<u>(172,148)</u>	<u>(66,647)</u>
<u>\$ (816,509)</u>	<u>\$(2,108,543)</u>	Tax	<u>\$(2,134,839)</u>	<u>\$ (843,935)</u>

24 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.

25 Minority Interest

The minority interest balance was not disclosed in the balance sheet since this was a debit balance at the 2005 and 2004 year-end.

The minority interest balance was not disclosed in the income statement since this balance was immaterial for the years 2005 and 2004.

Petroleum Company of Trinidad and Tobago Limited

Notes To the Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

26 Contingent Liabilities

(i) Housing loan guarantee

The Group has guaranteed mortgage-housing loans amounting to approximately \$22,090 (2004: \$24,325) 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 \$9,500 (2004: \$13,500).

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 and 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, 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 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

27 Commitments

(i) Capital commitments

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

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
<u>\$ 142,936</u>	<u>\$ 273,157</u>	Property, plant and equipment	<u>\$ 273,157</u>	<u>\$ 142,936</u>

(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:

\$ 37,645	\$ 43,506	Not later than 1 year	\$ 43,506	\$ 37,645
<u>15,524</u>	<u>5,058</u>	Later than 1 year and no later than 5 years	<u>5,058</u>	<u>15,524</u>
<u>\$ 53,169</u>	<u>\$ 48,564</u>		<u>\$ 48,564</u>	<u>\$ 53,169</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 \$5,994,767 (2004: \$3,369,940).

(iv) Purchases commitments

The Group has entered into purchase contracts with suppliers. As at the balance sheet date these amounted to \$219,800 (2004: \$ nil).

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

28 Related Party Transactions

The following transactions were carried out with related parties:

Parent			Consolidated	
September 30			September 30	
2004	2005		2005	2004
i) Sales of goods and services				
\$ 646	\$ 133,726	Joint Venture parties	\$ 133,726	\$ 646
<u>23,951</u>	<u>22,106</u>	Subsidiary – Trintomar	<u>--</u>	<u>--</u>

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

\$ 3,604	\$ 629,874	Joint Venture parties	\$ 629,874	\$ 3,604
<u>51,500</u>	<u>52,164</u>	Subsidiary – Trintomar	<u>--</u>	<u>--</u>

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 and services

Receivables from related parties				
\$ 11,421	\$ 13,328	Subsidiary – Trintomar	\$ --	\$ --
Payables to related parties				
\$ 3,409	\$ 3,409	Subsidiary – TNA	\$ 3,409	\$ 3,409
<u>14,819</u>	<u>13,172</u>	Subsidiary – Trintomar	<u>--</u>	<u>--</u>
<u>\$ 18,228</u>	<u>\$ 16,581</u>		<u>\$ 3,409</u>	<u>\$ 3,409</u>

iv) Directors' remuneration

\$ 1,098	\$ 1,111	Directors' remuneration	\$ 1,111	\$ 1,098
----------	----------	-------------------------	----------	----------

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

29 Interest in Joint Ventures

The Group has a shared control in the following ventures:

	Parent and Consolidated	
	September 30 2005	September 30 2004
	Effective	Effective
	Interest	Interest
Block 9 – Offshore	19.50%	19.50%
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	16.00%	4.00%
South West Peninsula	27.50%	27.50%
Parrylands ‘E’ Block	25.00%	25.00%
Eastern Block	35.00%	35.00%
Teak, Samaan, Poui (TSP)	15.00%	--

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			Consolidated	
September 30 2004	September 30 2005		September 30 2005	September 30 2004
		Assets		
\$ 670,897	\$ 980,180	Property, plant and equipment	\$ 980,180	\$ 670,897
<u>1,046</u>	<u>5,305</u>	Current assets	<u>5,305</u>	<u>1,046</u>
\$ <u>671,943</u>	\$ <u>985,485</u>		\$ <u>985,485</u>	\$ <u>671,943</u>
		Liabilities		
\$ 32,609	\$ 41,623	Accrued liabilities	\$ 41,623	\$ 32,609
\$ <u>639,334</u>	\$ <u>943,862</u>		\$ <u>943,862</u>	\$ <u>639,334</u>
\$ <u>633,015</u>	\$ <u>1,261,357</u>	Sales	\$ <u>1,261,357</u>	\$ <u>633,015</u>
\$ 471,361	\$ 738,012	Profit before tax	\$ 738,012	\$ 471,361
<u>(247,431)</u>	<u>(469,063)</u>	Income taxes	<u>(469,063)</u>	<u>(247,431)</u>
\$ <u>223,930</u>	\$ <u>268,949</u>	Profit after tax	\$ <u>268,949</u>	\$ <u>223,930</u>

Capital commitments for the various joint ventures are \$58,498 (2004: \$32,839). There are no contingencies related to the Group’s interest in the joint ventures. The average number of employees in the joint ventures in 2005 was 80 (2004: 80).

Petroleum Company of Trinidad and Tobago Limited

Notes To The Consolidated Financial Statements (Continued)

September 30 2005

(Expressed in Thousands of Trinidad and Tobago dollars)

30 Cash Generated From Operations

Reconciliation of profit before tax to cash generated from operations:

Parent September 30			Consolidated September 30	
2004	2005		2005	2004
Operating Activities				
\$ 1,305,529	\$ 3,619,178	Profit before tax	\$ 3,601,423	\$ 1,344,895
Adjustments for:				
57,113	10,603	Amortisation of intangible assets	10,603	57,113
(813)	(679)	Write back of dismantlement provision	(679)	(813)
687,349	626,983	Depletion and depreciation	633,707	691,779
8,281	4,398	Foreign currency translation	4,477	8,178
297,590	282,584	Interest expense	291,571	304,868
(123,698)	--	Gain on early debt extinguishment	--	(123,698)
(8,545)	(32,494)	Investment income	(34,540)	(9,583)
19,883	8,401	Loss on disposal of property, plant and equipment	8,401	19,883
(200)	(250,100)	Pension income	(250,100)	(200)
46,400	232,400	Post-employment medical benefit expenses	232,400	46,400
572,484	1,539,785	Taxation other than income taxes	1,555,630	579,526
Changes in working capital:				
(384,489)	(779,311)	Accounts receivable	(784,178)	(382,825)
(194,640)	(1,015,364)	Inventories	(1,015,360)	(194,500)
2,498	535,639	Other liabilities	536,457	7,509
<u>\$ 2,284,742</u>	<u>\$ 4,782,023</u>	Cash Generated From Operations	<u>\$ 4,789,812</u>	<u>\$ 2,348,532</u>

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

\$ 20,004	\$ 8,418	Net book value (Note 2)	\$ 8,418	\$ 20,004
<u>(19,883)</u>	<u>(8,401)</u>	Loss on disposal of property, plant and equipment	<u>(8,401)</u>	<u>(19,883)</u>
<u>\$ 121</u>	<u>\$ 17</u>	Proceeds from sale of property, plant and equipment	<u>\$ 17</u>	<u>\$ 121</u>