Financial Statements of

TOTAL CAPITAL CANADA LTD.

For the six month periods ended June 30, 2018 and 2017

KPMG

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone 403-691-8000
Fax 403-691-8008
www.kpmg.ca

Independent Auditors' Report on Review of Interim Financial Statements

To the Shareholder and Board of Directors of Total Capital Canada Ltd.

Introduction

We have reviewed the accompanying statement of financial position of Total Capital Canada Ltd. as at June 30, 2018, the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information ("the interim financial statements"). Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view of the financial position of the entity as at June 30, 2018, and of its financial performance and its cash flows for the six-month period then ended in accordance with IFRS including the requirements of IAS 34, "Interim Financial Reporting".

KPMG LLP

Chartered Professional Accountants

July 25, 2018
Calgary, Canada

TOTAL CAPITAL CANADA LTD.

Statements of Financial Position

(Thousands of U.S. dollars)
(Unaudited)

	As at June 30, 2018	As at December 31, 2017
Assets		
Current assets		
Cash	1,114	1,162
Related party loans (note 4)	38,721	33,364
Interest receivable on related party loans (note 4)	37,529	37,798
Fair value of derivatives (notes 8 and 9)	–	2,552
	77,364	74,876
Related party loans (note 4)	10,722,371	9,735,916
Fair value of derivatives (notes 8 and 9)	33,746	1,528
Deferred tax asset	102	112
	10,833,583	9,812,432
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,029	812
Related party loans (note 4)	37,529	40,350
Fair value of derivatives (notes 8 and 9)	38,721	33,364
Debt (note 5)	5,560,467	4,513,522
	5,637,746	4,588,048
Fair value of derivatives (notes 8 and 9)	223,611	167,535
Related party loans (note 4)	33,746	1,528
Debt (note 5)	4,937,260	5,054,128
Shareholder's equity		
Share capital (note 6)	50	50
Retained earnings	1,170	1,143
	1,220	1,193
	10,833,583	9,812,432

Nature of operations, basis of presentation and economic dependence (note 1)
See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Statements of Income and Comprehensive Income
Six month periods ended June 30
(Thousands of U.S. dollars)
(Unaudited)

	2018	2017
Finance income (note 7)	285,737	720,447
Finance expense (note 7)	(285,700)	(720,224)
Net finance income before income tax expense	37	223
Income tax expense		
Current	–	–
Deferred	10	45
	10	45
Net income and comprehensive income	27	178

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Statements of Changes in Shareholder's Equity
Six month periods ended June 30
(Thousands of U.S. dollars)
(Unaudited)

2018	Opening balance	Net income 2018	Closing balance
Share capital	50	–	50
Retained earnings	1,143	27	1,170
Total shareholder's equity	1,193	27	1,220

2017	Opening balance	Net income 2017	Closing balance
Share capital	50	–	50
Retained earnings	1,117	178	1,295
Total shareholder's equity	1,167	178	1,345

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Statements of Cash Flows
Six month periods ended June 30
(Thousands of U.S. dollars)
(Unaudited)

	2018	2017
Cash provided by (used in)		
Operating		
Net income	27	178
Items not involving cash:		
Deferred income tax expense	10	45
Change in fair value of derivatives (note 7)	31,767	(327,728)
	31,804	(327,505)
Net change in non-cash working capital (note 11)	(31,550)	332,296
Cash provided by operating activities	254	4,791
Financing		
Repayment of medium term notes	(1,000,000)	–
Net proceeds of commercial paper	2,053,403	106,181
Cash provided by financing activities	1,053,403	106,181
Investing		
Change in related party loans receivable	(1,053,705)	(110,967)
Change in cash	(48)	5
Cash, beginning of period	1,162	1,053
Cash, end of the period	1,114	1,058

See accompanying notes to financial statements.

1. Nature of operations, basis of presentation and economic dependence

Total Capital Canada Ltd. ("TCCL" or the "Company") was incorporated on April 9, 2007 under the Business Corporations Act (Alberta). TCCL is a wholly-owned subsidiary of Total S.A. TCCL issues debt securities and commercial paper. TCCL lends substantially all proceeds of its borrowings to Total E&P Canada Ltd. ("TEPC"), which is also ultimately owned by Total S.A., and has Canadian oil and gas operations.

The related party loans to TEPC corresponding to the debt are not expected to be repaid within the next 12 months and as a result they are classified as a long-term asset. The debt is both current and long-term in nature and as a result, TCCL has a working capital deficit of $5.6 billion at June 30, 2018. The current portion of the debt is expected to be refinanced upon maturity. The ultimate recoverability of the related party loans from TEPC is dependent upon TEPC successfully developing its oil sands reserves and realizing positive cash flows from its operations as well as receiving the continued support of Total S.A. Total S.A. has fully and unconditionally guaranteed the debt securities issued by TCCL as to payment of principal, premium, if any, interest and any other amounts due.

The Company's registered office is located at 2900, 240 – 4th Avenue S.W., Calgary, Alberta, Canada, T2P 4H4.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board including International Accounting Standard 34 *Interim Financial Reporting*.

The financial statements were authorized for issue by the Board of Directors on July 25, 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair value with changes in fair value recorded in profit or loss.

The methods used to measure fair values are discussed in note 9.

(c) Functional and presentation currency

The financial statements are presented in U.S. dollars, which is the functional currency of the Company.

2. Basis of presentation (continued)

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The most significant area of estimation uncertainty and critical judgments in applying accounting policies in the financial statements relate to the fair value of the derivative contracts described in notes 8 and 9.

3. Significant accounting policies

(a) Foreign currency translation

Transactions in foreign currencies are translated to U.S. dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at the period end exchange rate. Foreign currency differences arising on translation are recognized in profit or loss.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise cash, interest receivable, related party loans, accounts payable and accrued liabilities and debt. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost using the effective interest method, less any loss allowance.

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures (see note 8). Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for in profit or loss.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

(c) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(d) Finance income and expenses

Finance income comprises interest income on related party loans, management fee with related party, gain on derivatives, other financial income which is comprised of the offset of the losses on derivatives and foreign exchange, and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings, finance fees, loss on derivatives, transaction costs, other financial expense which is comprised of the offset of the gains on derivatives and foreign exchange, and foreign exchange losses.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

3. Significant accounting policies (continued)

(e) Changes in accounting policies

IFRS 9 *Financial Instruments*

As of January 1, 2018, the Company adopted all of the requirements of IFRS 9 *Financial Instruments* which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the Company's financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income ("FVOCI") and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale have been eliminated. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities:

	Measurement category	
Financial instrument	**IAS 39**	**IFRS 9**
Cash	Fair value through profit or loss	Amortized cost
Interest receivable	Loans and receivables	Amortized cost
Related party loans	Loans and receivables	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost
Debt	Financial liabilities at amortized cost	Amortized cost

3. Significant accounting policies (continued)

(e) Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

There were no adjustments to the carrying amounts of the Company's financial instruments as a result of the change in classification from IAS 39 to IFRS 9. The Company has not designated any financial instruments as FVOCI, nor does the Company use hedge accounting.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. The Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the life of a financial asset. ECLs are a probability-weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset. The application of the new expected credit loss model did not have a significant impact on the Company's financial assets or result in any additional provision for impairment.

IFRS 15 *Revenue from Contracts with Customers*

As of January 1, 2018, the Company adopted all of the requirements of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related interpretations. The standard provides a single, principles-based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. The Company has no contracts with customers, therefore there were no adjustments made to the January 1, 2018 opening statement of financial position on adoption.

(f) Standards issued but not yet effective

IFRS 16 *Leases*

The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the standard to have a material impact on the financial statements.

(Thousands of U.S. dollars)

4. Related party loans

Related party loans are primarily comprised of U.S. dollar loans obtained by the Company and lent to TEPC for use in its business. The loans are long-term in nature as the intention is not to repay the loans until TEPC generates net positive cash flows. TCCL charges TEPC interest at the market rate applicable to TCCL for the corresponding interest period, which is equivalent to the rate incurred on its outstanding debt as described in note 5. All finance expenses incurred by the Company related to these activities are recovered from TEPC.

The current asset (liability) portion of the related party loans is the corresponding offset to the fair value of the derivatives contracts entered into by the Company which expire within the next 12 months that are in a(n) liability (asset) position as at the reporting date. The current liability portion also includes interest payable to Total Capital, a wholly owned subsidiary of Total S.A.

5. Debt

The Company is registered to issue commercial paper and medium term notes and is a borrower on revolving credit lines.

(a) Summary of debt outstanding

The following table summarizes the book value of the debt outstanding:

	June 30, 2018	December 31, 2017
Commercial paper	5,449,699	3,396,296
Medium term notes	5,048,028	6,171,354
Total	10,497,727	9,567,650

The following table summarizes the book value of the current portion of the debt outstanding:

	June 30, 2018	December 31, 2017
Commercial paper	5,449,699	3,396,296
Medium term notes	110,768	1,117,226
Total	5,560,467	4,513,522

(Thousands of U.S. dollars)

5. Debt (continued)

(b) Commercial paper

The Company is an issuer under Total S.A.'s $13 billion U.S. commercial paper program. The commercial papers are issued at a discount and the Company receives the proceeds net of interest costs. The debt is accreted to its face value using the effective interest rate method with the interest expense recognized over the term of the commercial paper. The repayment terms are determined at the time of issuance; however they cannot be longer than 364 days. Total S.A. has fully and unconditionally guaranteed the commercial paper issued as to payment of principal, premium, if any, interest and any other amounts due.

The book value of the commercial paper at June 30, 2018 is as follows:

Expiry	Currency	Face value	Book value (USD)
Due July 3, 2018 at 2.370%	USD	548,000	547,928
Due July 3, 2018 at 1.960%	USD	937,000	936,898
Due July 6, 2018 at 2.380%	USD	375,500	375,376
Due July 10, 2018 at 2.380%	USD	446,000	445,735
Due July 18, 2018 at 2.350%	USD	54,000	53,940
Due July 18, 2018 at 2.350%	USD	56,000	55,938
Due July 18, 2018 at 2.350%	USD	300,000	299,667
Due July 24, 2018 at 2.350%	USD	588,000	587,117
Due August 8, 2018 at 2.320%	USD	458,000	456,878
Due August 8, 2018 at 2.000%	USD	500,000	498,944
Due August 22, 2018 at 2.260%	USD	47,000	46,848
Due September 7, 2018 at 2.300%	USD	373,500	371,877
Due September 17, 2018 at 2.210%	USD	17,500	17,416
Due September 17, 2018 at 2.210%	USD	46,000	45,780
Due September 20, 2018 at 2.210%	USD	487,000	484,578
Due September 27, 2018 at 2.210%	USD	76,000	75,589
Due September 27, 2018 at 2.210%	USD	150,000	149,190
			5,449,699

(Thousands of U.S. dollars)

5. Debt (continued)

(b) Commercial paper (continued)

The book value of the commercial paper at December 31, 2017 is as follows:

Expiry	Currency	Face value	Book value (USD)
Due January 3, 2018 at 1.560%	USD	582,000	581,950
Due January 4, 2018 at 1.560%	USD	70,000	69,991
Due January 8, 2018 at 1.250%	USD	221,000	220,946
Due January 8, 2018 at 1.310%	USD	150,000	149,962
Due January 9, 2018 at 1.270%	USD	474,000	473,866
Due January 11, 2018 at 1.290%	USD	156,500	156,444
Due January 11, 2018 at 1.330%	USD	150,000	149,944
Due January 11, 2018 at 1.330%	USD	50,000	49,982
Due January 18, 2018 at 1.550%	USD	150,000	149,890
Due January 18, 2018 at 1.610%	USD	85,850	85,785
Due January 18, 2018 at 1.550%	USD	50,000	49,963
Due January 18, 2018 at 1.550%	USD	25,000	24,982
Due January 22, 2018 at 1.590%	USD	80,000	79,926
Due February 5, 2018 at 1.310%	USD	386,500	386,008
Due February 5, 2018 at 1.360%	USD	150,000	149,802
Due February 21, 2018 at 1.660%	USD	20,000	19,953
Due March 6, 2018 at 1.430%	USD	239,500	238,891
Due March 6, 2018 at 1.410%	USD	125,000	124,687
Due March 16, 2018 at 1.690%	USD	100,000	99,653
Due March 16, 2018 at 1.680%	USD	67,000	66,769
Due March 16, 2018 at 1.670%	USD	22,150	22,074
Due March 21, 2018 at 1.720%	USD	45,000	44,828
			3,396,296

(c) Medium term notes

TCCL issues notes under Total S.A.'s €35 billion Euro Medium Term Note Program, the $16 billion U.S. Medium Term Note Program and the $2 billion Australian Medium Term Note Program. Interest is charged at a fixed or floating rate determined at the time of issuance. The repayment terms of the notes are determined at the time of issuance. Total S.A. has fully and unconditionally guaranteed the medium term notes issued as to payment of principal, premium, if any, interest and any other amounts due.

(Thousands of U.S. dollars)

5. Debt (continued)

(c) Medium term notes (continued)

The book value of the medium term notes at June 30, 2018 is as follows:

Expiry	Notional value	Currency	Book value (USD)
September 6, 2018	150,000	AUD	110,768
September 23, 2019	100,000	AUD	73,846
January 31, 2020	100,000	CAD	75,495
July 9, 2020	750,000	EUR	874,350
March 18, 2022	1,000,000	EUR	1,165,800
July 15, 2023	1,000,000	USD	999,069
September 18, 2029	1,500,000	EUR	1,748,700
			5,048,028

The book value of the medium term notes at December 31, 2017 is as follows:

Expiry	Notional value	Currency	Book value (USD)
January 15, 2018	1,000,000	USD	1,000,000
September 6, 2018	150,000	AUD	117,226
September 23, 2019	100,000	AUD	78,151
January 31, 2020	100,000	CAD	79,277
July 9, 2020	750,000	EUR	899,475
March 18, 2022	1,000,000	EUR	1,199,300
July 15, 2023	1,000,000	USD	998,975
September 18, 2029	1,500,000	EUR	1,798,950
			6,171,354

There were no medium term note issuances and one repayment for the six months ended June 30, 2018. The remaining change in book value of the medium term notes from December 31, 2017 to June 30, 2018 is due to foreign exchange translation of $123,419 and amortization of debt issue costs of $93.

(d) Revolving credit line

TCCL is a swingline borrower on a US$150 million multicurrency revolving credit agreement (incorporating a US$ swingline option) with a chartered American bank. The interest rate on the credit facility is charged a variable rate determined on the date of issuance. The credit facility is fully and unconditionally guaranteed by Total S.A. To date, no amounts have been drawn on this facility.

(Thousands of U.S. dollars)

6. Share capital

Structure of the share capital

The Company is authorized to issue an unlimited number of common shares, and as of June 30, 2018 and December 31, 2017, has 50,000 issued and outstanding common shares with a face value of $1.00 each. All of the shares are held by Total S.A.

7. Finance income and finance expense

(a) Finance income

	Six months ended June 30, 2018	Six months ended June 30, 2017
Income on related party loans	130,032	94,608
Management fee with related party	519	582
Gain on derivatives	–	327,728
Foreign exchange gain on translation of foreign currency denominated debt	123,419	–
Other financial income	31,767	297,529
	285,737	720,447

(b) Finance expense

	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest	130,032	94,609
Finance fees	482	358
Other financial expense	123,419	327,728
Foreign exchange loss on translation of foreign currency denominated debt	–	297,529
Loss on derivatives	31,767	–
	285,700	720,224

(Thousands of U.S. dollars)

8. Financial risk management and financial instruments overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The following disclosure presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the management of capital.

(a) Risk management framework

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's related party loans and the forward foreign exchange and interest rate swap contracts.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at June 30, 2018 was $10,833,481 (December 31, 2017 - $9,812,320).

Carrying amount	June 30, 2018	December 31, 2017
Cash	1,114	1,162
Interest receivable on related party loans	37,529	37,798
Fair value of derivatives	33,746	4,080
Related party loans	10,761,092	9,769,280
Total	10,833,481	9,812,320

All of the Company's income and the majority of its receivables are from TEPC. The Company's exposure to credit risk is influenced mainly by the characteristics of TEPC as a borrower. However, management also considers the default risk of the industry and country in which the borrower operates, as these factors may have an influence on credit risk.

(Thousands of U.S. dollars)

8. Financial risk management and financial instruments overview (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Company's debts are unconditionally guaranteed by Total S.A.

The following are the remaining contractual maturities of financial liabilities at June 30, 2018. The amounts are gross and undiscounted, and include estimated interest payments.

Also included in debt are the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes which are not usually closed out prior to contractual maturity.

	Carrying amount	Contractual cash flows	Less than one year	Greater than one year
Derivative and Non-derivative financial liabilities:				
Debt (notional value excluding interest)	10,497,727	11,008,340	5,612,485	5,395,855
Interest expense on debt	–	711,989	102,973	609,016
Interest differential on swaps	–	406,410	65,937	340,473
Related party loans	71,275	71,275	37,529	33,746
Accounts payable and accrued liabilities	1,029	1,029	1,029	–
	10,570,031	12,199,043	5,819,953	6,379,090

The interest payments on variable rate commercial papers and medium term notes in the above table reflect current market interest rates at the reporting date and these amounts may change as market interest rates change. The future cash flows on derivative instruments may be different from the amount in the above table as interest rates and exchange rates change. Except for those financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

8. Financial risk management and financial instruments overview (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors of the Company. The Company does not apply hedge accounting but enters into derivative contracts to hedge its economic exposure.

(i) Currency risk

Currency risk is the risk that the future cash flows will fluctuate as a result of changes in exchange rates. The Company manages its exposure to foreign exchange fluctuations on its non-U.S. dollar denominated medium term notes by entering into cross-currency interest rate swaps with Total Capital (see interest rate risk section below for the notional value details). Gains or losses on the cross-currency and interest rate swaps are flowed through to TEPC, so that the Company's exposure to foreign currency exchange risk is insignificant.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the medium term notes fluctuates with the interest rates posted by the lenders. Any change in interest rates resulting in changes to interest expense is flowed through to TEPC. The Company uses long-term interest rate swaps, along with the aforementioned currency swaps, to manage the associated risk.

(Thousands of U.S. dollars)

8. Financial risk management and financial instruments overview (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

At June 30, 2018, the Company had the following cross currency and interest rate swap contracts related to the outstanding medium term notes:

Expiry	Notional value	Currency	Notional value (USD)	Swap rate	Fair value (USD)
September 6, 2018	150,000	AUD	152,985	LIBOR+37.000bp	(38,721)
September 23, 2019	100,000	AUD	90,300	LIBOR+25.500bp	(13,326)
January 31, 2020	100,000	CAD	92,005	LIBOR+30.500bp	(16,673)
July 9, 2020	500,000	EUR	651,750	LIBOR+82.500bp	(46,900)
July 9, 2020	250,000	EUR	325,700	LIBOR+82.400bp	(23,263)
March 18, 2022	500,000	EUR	647,450	LIBOR+64.230bp	(50,582)
March 18, 2022	500,000	EUR	647,000	LIBOR+64.520bp	(50,189)
July 15, 2023	500,000	USD	500,000	LIBOR+81.250bp	(20,359)
September 18, 2029	500,000	EUR	647,200	3.3645%	(2,319)
September 18, 2029	500,000	EUR	647,400	3.1925%	8,364
September 18, 2029	500,000	EUR	647,050	3.3555%	25,382
					(228,586)

At December 31, 2017, the Company had the following cross currency and interest rate swap contracts related to the outstanding medium term notes:

Expiry	Notional value	Currency	Notional value (USD)	Swap rate	Fair value (USD)
January 15, 2018	1,000,000	USD	1,000,000	LIBOR+58.425bp	2,552
September 6, 2018	150,000	AUD	152,985	LIBOR+37.000bp	(33,364)
September 23, 2019	100,000	AUD	90,300	LIBOR+25.500bp	(9,493)
January 31, 2020	100,000	CAD	92,005	LIBOR+30.500bp	(11,476)
July 9, 2020	500,000	EUR	651,750	LIBOR+82.500bp	(33,908)
July 9, 2020	250,000	EUR	325,700	LIBOR+82.400bp	(16,759)
March 18, 2022	500,000	EUR	647,450	LIBOR+64.230bp	(36,621)
March 18, 2022	500,000	EUR	647,000	LIBOR+64.520bp	(36,236)
July 15, 2023	500,000	USD	500,000	LIBOR+81.250bp	(5,159)
September 18, 2029	500,000	EUR	647,200	3.3645%	(9,155)
September 18, 2029	500,000	EUR	647,400	3.1925%	1,528
September 18, 2029	500,000	EUR	647,050	3.3555%	(8,728)
					(196,819)

(Thousands of U.S. dollars)

9. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Cash, interest receivable, accounts payable and accrued liabilities and debt

The fair value of cash, interest receivable, accounts payable and accrued liabilities and commercial paper is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

The fair value of the medium term notes has been determined on an individual basis by discounting future cash flows with the zero coupon interest rate curves existing at June 30, 2018 (level 2 fair value).

The fair value of the medium term notes at June 30, 2018 is as follows:

Expiry	Notional value	Currency	Fair value (USD)
September 6, 2018	150,000	AUD	114,649
September 23, 2019	100,000	AUD	77,395
January 31, 2020	100,000	CAD	76,205
July 9, 2020	750,000	EUR	920,348
March 18, 2022	1,000,000	EUR	1,207,214
July 15, 2023	1,000,000	USD	982,158
September 18, 2029	1,500,000	EUR	1,748,700
			5,126,669

(Thousands of U.S. dollars)

9. Determination of fair values (continued)

(b) Cross currency and interest rate swap contracts

The fair value of cross currency and interest rate swap contracts are determined by discounting the difference between the contracted prices and published forward price curves as at the reporting date. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations that incorporate various inputs, including foreign exchange spot and forward rates.

The following table summarizes the fair value of the derivatives:

	June 30, 2018	December 31, 2017
Current asset	-	2,552
Non-current asset	33,746	1,528
Current liability	(38,721)	(33,364)
Non-current liability	(223,611)	(167,535)
	(228,586)	(196,819)

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. The fair value of the foreign exchange and interest rate swaps were determined using level 2 fair value measurements.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

10. Capital management

The Company's objective is to obtain debt financing from the capital markets and to provide the financing obtained to TEPC. The Company considers its capital structure to include working capital, debt and shareholder's equity. The Company's shareholder's equity is not subject to external restrictions and the Company has not paid or declared any dividends since incorporation. There are no financial covenants in the Company's debt agreements.

(Thousands of U.S. dollars)

11. Supplemental cash flow information

	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest receivable on related party loans	269	(2,462)
Accounts payable and accrued liabilities	217	4,568
Interest payable (related party loans)	(269)	2,462
Change in related party loans related to fair value of derivatives:		
Current asset	(5,357)	(327)
Non-current asset	(56,076)	326,236
Current liability	(2,552)	–
Non-current liability	32,218	1,819
Net change in non-cash working capital	(31,550)	332,296