Financial Statements of

TOTAL CAPITAL CANADA LTD.

Years ended December 31, 2013 and 2012

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Independent Auditors' Report

To the Shareholder and Directors of Total Capital Canada Ltd.

We have audited the accompanying financial statements of Total Capital Canada Ltd., which comprise the statements of financial position as at December 31, 2013 and December 31, 2012, the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Total Capital Canada Ltd. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 10, 2014
Calgary, Canada

TOTAL CAPITAL CANADA LTD.

Statements of Financial Position

As at December 31
(Thousands of U.S. dollars)

	2013	2012
Assets		
Current assets		
Cash	268	178
Income taxes receivable	140	–
Interest receivable on related party loans (note 4)	15,454	8,105
Fair value of derivatives (notes 8 and 9)	4,839	18,274
Related party loans (note 4)	5,293	–
	25,994	26,557
Related party loans (note 4)	7,469,278	6,825,022
Fair value of derivatives (notes 8 and 9)	35,604	29,321
Deferred tax asset	466	339
	7,531,342	6,881,239
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	783	374
Income taxes payable	–	126
Related party loans (note 4)	20,293	26,379
Fair value of derivatives (notes 8 and 9)	5,293	–
Debt (note 5)	3,033,475	5,023,264
	3,059,844	5,050,143
Related party loans (note 4)	35,604	29,321
Fair value of derivatives (notes 8 and 9)	77,539	1,952
Debt (note 5)	4,357,662	1,799,215
Shareholder's equity (note 6)		
Share capital	50	50
Retained earnings	643	558
	693	608
	7,531,342	6,881,239

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

Years ended December 31
(Thousands of U.S. dollars)

	2013	2012
Finance income (note 7)	166,754	155,812
Finance expense (note 7)	(166,645)	(155,250)
Net finance income before income tax expense	109	562
Income tax expense (recovery)		
Current	151	491
Deferred	(127)	(339)
	24	152
Net income and comprehensive income	85	410

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Statements of Changes in Shareholder's Equity

Years ended December 31
(Thousands of U.S. dollars)

2013	Opening balance	Net income	Closing balance
Share capital	50	–	50
Retained earnings	558	85	643
Total shareholder's equity	608	85	693

2012	Opening balance	Net income	Closing balance
Share capital	50	–	50
Retained earnings	148	410	558
Total shareholder's equity	198	410	608

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Statements of Cash Flows

Years ended December 31
(Thousands of U.S. dollars)

	2013	2012
Cash provided by (used in)		
Operating		
Net income for the year	85	410
Deferred income tax recovery	(127)	(339)
Change in fair value of derivatives (note 7)	88,032	56,634
	87,990	56,705
Net change in non-cash working capital	(87,889)	(56,149)
Cash provided by operating activities	101	556
Financing		
Proceeds from medium term note issuances	4,153,188	–
Repayment of medium term notes	(1,000,000)	–
Net proceeds (repayment) of commercial paper	(2,580,036)	1,522,537
Cash provided by financing activities	573,152	1,522,537
Investing		
Increase in related party loans receivable	(573,163)	(1,523,059)
Change in cash	90	34
Cash, beginning of year	178	144
Cash, end of year	268	178

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. 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 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 $3.0 billion at December 31, 2013. 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.

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.

The financial statements were authorized for issue by the Board of Directors on February 10, 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

(i) derivative financial instruments are measured at fair value with changes in fair value recorded in earnings.

(ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

2. Basis of presentation (continued)

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

(c) Functional and presentation currency

Effective January 1, 2013, the Company changed its functional currency from the Canadian dollar to the United States dollar ("U.S. dollars"), as a significant portion of the Company's revenues, expenses and financing activities are denominated in U.S. dollars. Concurrent with the change of functional currency to the U.S. dollar, the Company also changed its reporting currency to the U.S. dollar effective January 1, 2013. The change in functional currency has been applied prospectively. The financial statements for all comparative periods presented have been translated using the closing exchange rate as at December 31, 2012.

(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 that have the most significant effect on the amounts recognized 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.

3. Significant accounting policies (continued)

(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 as described below.

Financial assets at fair value through profit or loss

An instrument is measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash at fair value through profit or loss.

Other

Other non-derivative financial instruments which include interest receivable, related party loans, accounts payable and accrued liabilities and debt are measured at amortized cost using the effective interest method, less any impairment losses.

(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.

(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.

3. Significant accounting policies (continued)

(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 expense comprises interest expense on borrowings, accretion of the discount on provisions, impairment losses recognized on financial assets, foreign exchange losses, transaction costs, swap termination costs and the change in fair value of derivatives contracts.

Finance income comprises interest income, management fee with related party, offset of loss on derivatives, offset of swap termination costs and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

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

(e) Recent pronouncements

On January 1, 2013, the Company adopted new standards with respect to fair value measurements (IFRS 13), applied prospectively, and amendments to financial instrument disclosures (IFRS 7), applied retrospectively. The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

(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 December 31, 2013 and 2012. 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:

	December 31, 2013	December 31, 2012
Commercial paper	1,444,077	4,024,113
Medium term notes	5,947,060	2,798,366
Total	7,391,137	6,822,479

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

	December 31, 2013	December 31, 2012
Commercial paper	1,444,077	4,024,113
Medium term notes	1,589,398	999,151
Total	3,033,475	5,023,264

(Thousands of U.S. dollars)

5. Debt (continued)

(b) Commercial paper

The Company is an issuer under Total S.A.'s $13 billion US commercial paper program, and is also named as an issuer under Total S.A.'s $2 billion Canadian 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 December 31, 2013 is as follows:

Expiry	Currency	Face value	Book value (USD)
Due January 13, 2014 at 0.070%	US	37,500	37,499
Due January 13, 2014 at 0.165%	US	200,000	199,989
Due January 16, 2014 at 0.050%	US	68,000	67,999
Due January 16, 2014 at 0.165%	US	103,000	102,993
Due January 16, 2014 at 0.060%	US	146,000	145,996
Due February 3, 2014 at 0.080%	US	18,000	18,000
Due February 3, 2014 at 0.080%	US	24,000	23,999
Due February 3, 2014 at 0.150%	US	50,000	49,993
Due February 3, 2014 at 0.150%	US	50,000	49,993
Due February 3, 2014 at 0.060%	US	64,000	63,996
Due March 19, 2014 at 0.190%	US	15,000	14,994
Due March 19, 2014 at 0.200%	US	226,000	225,903
Due April 11, 2014 at 0.220%	US	52,000	51,968
Due April 11, 2014 at 0.220%	US	100,000	99,939
Due April 11, 2014 at 0.220%	US	100,000	99,939
Due May 7, 2014 at 0.200%	US	63,000	62,956
Due June 2, 2014 at 0.150%	US	128,000	127,921
			1,444,077

(Thousands of U.S. dollars)

5. Debt (continued)

(b) Commercial paper (continued)

The book value of the commercial paper at December 31, 2012 is as follows:

Expiry	Currency	Face value	Book value (USD)
Due January 2, 2013 at 0.170%	US	50,000	49,950
Due January 2, 2013 at 0.160%	US	95,000	94,899
Due January 2, 2013 at 0.150%	US	106,000	105,897
Due January 2, 2013 at 0.150%	US	167,000	166,838
Due January 2, 2013 at 0.160%	US	300,000	299,689
Due January 2, 2013 at 0.170%	US	329,000	328,661
Due January 2, 2013 at 0.140%	US	360,000	359,655
Due January 2, 2013 at 0.140%	US	365,000	364,645
Due January 2, 2013 at 0.150%	US	401,000	400,606
Due January 2, 2013 at 0.140%	US	404,000	403,614
Due January 2, 2013 at 0.170%	US	480,000	479,624
Due February 5, 2013 at 0.140%	US	247,000	246,759
Due February 8, 2013 at 0.150%	US	11,000	10,988
Due February 8, 2013 at 0.150%	US	51,000	50,949
Due February 8, 2013 at 0.150%	US	363,000	362,628
Due February 13, 2013 at 0.140%	US	298,000	298,711
			4,024,113

(c) Medium term notes

TCCL issues notes under Total S.A.'s €20 billion Euro Medium Term Note Program and the US Medium Term Note Program. In May 2013, TCCL registered as an issuer under the $2 billion Australian Medium Term Note Program. Effective October 2012, the Canadian Medium Term Note Program expired and was not renewed. 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 December 31, 2013 is as follows:

Expiry	Notional value	Currency	Book value (USD)
January 17, 2014	750,000	US	750,000
January 28, 2014	750,000	US	750,000
February 4, 2014	100,000	AUD	89,398
January 15, 2016	1,000,000	US	999,200
July 7, 2016	600,000	NOK	98,654
July 13, 2016	600,000	SEK	93,088
January 15, 2018	1,000,000	US	1,000,000
September 6, 2018	150,000	AUD	134,165
July 9, 2020	750,000	EUR	1,034,324
July 15, 2023	1,000,000	US	998,231
			5,947,060

The book value of the medium term notes at December 31, 2012 is as follows:

Expiry	Notional value	Currency	Book value (USD)
May 13, 2013	1,000,000	US	999,151
January 17, 2014	750,000	US	749,114
January 28, 2014	750,000	US	748,604
February 4, 2014	100,000	AUD	103,523
July 7, 2016	600,000	NOK	106,674
July 13, 2016	600,000	SEK	91,300
			2,798,366

5. Debt (continued)

(c) Medium term notes (continued)

On January 17, 2013, TCCL completed an offering of $1.0 billion principal amount of floating rate notes for net cash proceeds of $998.8 million. These floating rate notes bear interest at an interest rate for each interest period equal to the 3-month US dollar LIBOR plus 38 basis points. TCCL pays interest on the floating rate notes on January 15, April 15, July 15 and October 15. The floating rate notes mature on January 15, 2016. In addition, TCCL may redeem the notes at any time at 100% of the principal amount upon the occurrence of certain tax events.

On January 17, 2013, TCCL completed an offering of $1.0 billion principal amount of 1.45% notes for net cash proceeds of $997.7 million. These fixed rate notes incur interest payments semi-annually on January 15 and July 15, and mature on January 15, 2018. TCCL may redeem the 1.45% notes in whole or in part at any time and from time to time at the redemption price set forth in the prospectus. In addition, TCCL may redeem the notes at any time at 100% of the principal amount upon the occurrence of certain tax events.

On January 17, 2013, TCCL completed an offering of $1.0 billion principal amount of 2.75% rate notes for net cash proceeds of $996.1 million. These fixed rate notes incur interest payments semi-annually on January 15 and July 15, and mature on July 15, 2023. TCCL may redeem the 2.75% notes in whole or in part at any time and from time to time at the redemption price set forth in the prospectus. In addition, TCCL may redeem the notes at any time at 100% of the principal amount upon the occurrence of certain tax events.

On March 6, 2013, TCCL completed an offering of $153 million ($150 million AUD) principal amount of 4% rate notes for net cash proceeds of $152.6 million. These fixed rate notes incur interest payments annually on September 6, and mature on September 6, 2018. TCCL may redeem the 4% notes in whole or in part at any time and from time to time at the redemption price set forth in the prospectus. In addition, TCCL may redeem the notes at any time at 100% of the principal amount upon the occurrence of certain tax events.

On July 9, 2013, TCCL completed an offering of $977 million ($750 million EUR) principal amount of 1.875% rate notes for net cash proceeds of $968 million. These fixed rate notes incur interest payments annually on July 9, and mature on July 9, 2020. TCCL may redeem the 1.875% notes in whole or in part at any time and from time to time at the redemption price set forth in the prospectus. In addition, TCCL may redeem the notes at any time at 100% of the principal amount upon the occurrence of certain tax events.

There were no medium term note issuances for the year ended December 31, 2012.

(Thousands of U.S. dollars)

5. Debt (continued)

(d) Revolving credit line

TCCL is named as a borrower on a CAD$1.625 billion short term revolving credit line with a syndicate of Canadian chartered banks. In October 2013, TCCL was named as a swingline borrower on a US$150 million multicurrency revolving credit agreement (incorporating a US$ swingline option) with a chartered American bank. Interest rates on the credit facilities are charged at variable rates determined on the date of issuance. All credit facilities are fully and unconditionally guaranteed by Total S.A. To date, no amounts have been drawn on these facilities.

6. Shareholder's equity

Structure of the share capital

The Company is authorized to issue an unlimited number of common shares, and as of December 31, 2013 and 2012, 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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Income on related party loans	77,172	98,785
Management fee with related party	1,550	393
Other financial income	88,032	56,634
	166,754	155,812

(Thousands of U.S. dollars)

7. Finance income and finance expense (continued)

(b) Finance expense

	Year Ended December 31, 2013	Year Ended December 31, 2012
Interest	52,989	53,797
Finance fees	723	383
Foreign exchange loss	15,989	44,436
Loss on derivatives	88,032	56,634
Swap termination costs	8,912	–
	166,645	155,250

The following table summarizes the foreign exchange gains and losses:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Loss on translation of foreign currency denominated debt	15,989	107,991
Gain on foreign exchange contracts	–	(63,555)
	15,989	44,436

(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 December 31, 2013 was $7,530,736 (December 31, 2012 - $6,880,900).

Carrying amount	December 31 2013	December 31, 2012
Cash	268	178
Interest receivable on related party loans	15,454	8,105
Fair value of derivatives	40,443	47,595
Related party loans	7,474,571	6,825,022
Total	7,530,736	6,880,900

(Thousands of U.S. dollars)

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

(b) Credit risk (continued)

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.

(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 December 31, 2013. The amounts are gross and undiscounted, and include estimated interest payments. Also included 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)	7,391,137	7,379,465	3,043,980	4,335,485
Interest expense on debt	-	551,372	92,779	458,593
Interest differential on swaps	-	(231,313)	(43,740)	(187,573)
Related party loans	55,897	55,897	20,293	35,604
Other payables	783	783	783	–
	7,447,817	7,756,204	3,114,095	4,642,109

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

(c) Liquidity risk (continued)

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.

(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 US commercial papers by entering into foreign exchange forward contracts with Total Capital. Gains or losses on the foreign exchange forward contracts are flowed through to TEPC, so that the Company's exposure to foreign currency exchange risk is insignificant.

At December 31, 2013, the Company had no foreign exchange forward contracts.

(Thousands of U.S. dollars)

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

(d) Market risk (continued)

(i) Currency risk (continued)

At December 31, 2012 the Company had the following foreign exchange forward contracts:

Expiry	Notional value	Currency	Fair value (USD)
January 2, 2013	95,000	US	–
January 2, 2013	329,000	US	1
January 2, 2013	300,000	US	–
January 2, 2013	480,000	US	2
January 2, 2013	50,000	US	–
January 2, 2013	404,000	US	1
January 2, 2013	360,000	US	–
January 2, 2013	167,000	US	1
January 2, 2013	365,000	US	1
January 2, 2013	106,000	US	–
January 2, 2013	401,000	US	1
January 2, 2013	363,000	US	1
January 2, 2013	11,000	US	–
January 2, 2013	51,000	US	–
January 2, 2013	247,000	US	(1)
January 2, 2013	298,000	US	–
			7

(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 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 together with 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 December 31, 2013, the Company had the following cross currency interest rate swap contracts related to the outstanding medium term notes:

Expiry	Notional value	Currency	Notional value (USD)	Swap rate	Fair value (USD)
January 28, 2014	750,000	US	750,000	LIBOR+41.625bp	4,839
February 4, 2014	100,000	AUD	99,480	LIBOR+37.000bp	(5,293)
July 7, 2016	600,000	NOK	110,599	LIBOR+41.833bp	(6,323)
July 13, 2016	600,000	SEK	94,451	LIBOR+39.833bp	4,528
January 15, 2018	1,000,000	US	1,000,000	LIBOR+58.425bp	(13,478)
September 6, 2018	150,000	AUD	152,985	LIBOR+37.000bp	(18,292)
July 9, 2020	500,000	EUR	651,750	LIBOR+82.500bp	20,580
July 9, 2020	250,000	EUR	325,700	LIBOR+82.400bp	10,496
July 15, 2023	500,000	US	500,000	LIBOR+81.250bp	(39,446)
					(42,389)

At December 31, 2012, the Company had the following cross currency interest rate swap contracts related to the outstanding medium term notes:

Expiry	Notional value	Currency	Notional value (CAD)	Swap rate	Fair value (USD)
May 13, 2013	1,000,000	US	390,160	CDOR+13.45bp	7,306
			585,750	CDOR+13.75bp	10,961
January 17, 2014	750,000	US	745,875	CDOR+53.00bp	(1,952)
January 28, 2014	750,000	US	745,875	CDOR+52.55bp	5,873
February 4, 2014	100,000	AUD	99,430	CDOR+47.25bp	10,806
July 7, 2016	600,000	NOK	108,852	CDOR+52.00bp	4,672
July 13, 2016	600,000	SEK	90,673	CDOR+50.50bp	7,970
					45,636

(Thousands of U.S. dollars)

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

(d) Market risk (continued)

(ii) Interest rate risk (continued)

With the January 1, 2013 change in functional currency the cross currency swaps to Canadian dollars were unwound and early termination costs of $8.9 million dollars were incurred and recorded as finance expense.

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 papers is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013, 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 December 31, 2013.

The fair value of the medium term notes at December 31, 2013 is as follows:

Expiry	Notional value	Currency	Fair value (USD)
January 17, 2014	750,000	US	750,000
January 28, 2014	750,000	US	755,209
February 4, 2014	100,000	AUD	94,234
January 15, 2016	1,000,000	US	999,200
July 7, 2016	600,000	NOK	104,342
July 13, 2016	600,000	SEK	99,035
January 15, 2018	1,000,000	US	987,091
September 6, 2018	150,000	AUD	134,728
July 9, 2020	750,000	EUR	1,009,159
July 15, 2023	1,000,000	US	959,003
			5,892,001

(Thousands of U.S. dollars)

9. Determination of fair values (continued)

(b) Foreign exchange and interest rate swap contracts

The fair value of forward foreign exchange 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 tables provide fair value measurement information for financial assets and liabilities as of December 31, 2013 and December 31, 2012.

			Fair value measurements using		
As at December 31, 2013	Carrying amount	Fair value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Derivatives					
Fair value of cross currency and interest rate swaps	(42,389)	(42,389)	–	(42,389)	

			Fair value measurements using		
As at December 31, 2012	Carrying amount	Fair value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Derivatives					
Fair value of foreign exchange forwards	7	7	–	7	–
Fair value of cross currency interest rate swaps	45,636	45,636	–	45,636	–
	45,643	45,643	–	45,643	–

(Thousands of U.S. dollars)

9. Determination of fair values (continued)

(b) Foreign exchange and interest rate swap contracts (continued)

The following table summarizes the fair value of the derivatives:

Fair value as at December 31,	2013	2012
Current asset	4,839	18,274
Non-current asset	35,604	29,321
Current liability	(5,293)	-
Non-current liability	(77,539)	(1,952)
	(42,389)	45,643

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 restructuring and the Company has not paid or declared any dividends since incorporation. There are no covenants in the Company's debt agreements.

11. Subsequent event

Subsequent to December 31, 2013 three medium term notes matured with book values totaling $1.6 billion. These notes were repaid through the issuance of commercial paper. All repayments were made in the first quarter of 2014.