

Financial Statements of

TOTAL CAPITAL CANADA LTD.

Years ended December 31, 2018 and 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Directors of Total Capital Canada Ltd.

Opinion

We have audited the financial statements of Total Capital Canada Ltd. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of income and comprehensive income for the years then ended
- the statements of changes in shareholder's equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty



exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is John Joseph Iacuone.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

February 20, 2019

TOTAL CAPITAL CANADA LTD.

Statements of Financial Position

As at December 31

(Thousands of U.S. dollars)

	2018	2017
Assets		
Current assets		
Cash	1,009	1,162
Related party loans (note 4)	18,454	33,364
Interest receivable on related party loans (note 4)	37,608	37,798
Fair value of derivatives (notes 8 and 9)	–	2,552
	57,071	74,876
Non-current assets		
Related party loans (note 4)	10,795,172	9,735,916
Fair value of derivatives (notes 8 and 9)	–	1,528
Deferred tax asset	92	112
	10,852,335	9,812,432
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,029	812
Related party loans (note 4)	37,608	40,350
Fair value of derivatives (notes 8 and 9)	18,454	33,364
Debt (note 5)	5,703,788	4,513,522
	5,760,879	4,588,048
Non-current liabilities		
Fair value of derivatives (notes 8 and 9)	296,422	167,535
Related party loans (note 4)	–	1,528
Debt (note 5)	4,793,786	5,054,128
Shareholder's equity		
Share capital (note 6)	50	50
Retained earnings	1,198	1,143
	1,248	1,193
	10,852,335	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
Years ended December 31
(Thousands of U.S. dollars)

	2018	2017
Finance income (note 7)	553,101	1,253,656
Finance expense (note 7)	(553,026)	(1,253,607)
Net finance income before income tax expense	75	49
Income tax expense		
Current	–	–
Deferred	20	23
	20	23
Net income and comprehensive income	55	26

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)

2018	Opening balance	Net income	Closing balance
Share capital	50	–	50
Retained earnings	1,143	55	1,198
Total shareholder's equity	1,193	55	1,248

2017	Opening balance	Net income	Closing balance
Share capital	50	–	50
Retained earnings	1,117	26	1,143
Total shareholder's equity	1,167	26	1,193

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

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

	2018	2017
Cash provided by (used in)		
Operating		
Net income	55	26
Items not involving cash:		
Deferred income tax expense	20	23
Change in fair value of derivatives (note 7)	118,057	(553,579)
	118,132	(553,530)
Net change in non-cash working capital (note 11)	(117,840)	553,383
Cash provided by operating activities	292	(147)
Financing		
Repayment of medium term notes	(1,152,573)	-
Net proceeds (repayments) of commercial paper	2,236,900	(3,165,721)
Cash provided by financing activities	1,084,327	(3,165,721)
Investing		
Change in related party loans receivable	(1,084,772)	3,165,977
Change in cash	(153)	109
Cash, beginning of year	1,162	1,053
Cash, end of the year	1,009	1,162

See accompanying notes to financial statements.

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(Thousands of U.S. dollars)

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 \$5.7 billion at December 31, 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.

The financial statements were authorized for issue by the Board of Directors on February 20, 2019.

(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.

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(Thousands of U.S. dollars)

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.

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(Thousands of U.S. dollars)

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.

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(Thousands of U.S. dollars)

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:

Financial instrument	Measurement category	
	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

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Notes to the Financial Statements
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(Thousands of U.S. dollars)

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 outside of its financial instrument contracts, 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 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information. The Company does not expect the standard to have a material impact on the financial statements as based on the information currently available, the Company has not identified any leases or contracts that are within the scope of IFRS 16, however, the Company has not finalized its analysis.

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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:

	December 31, 2018	December 31, 2017
Commercial paper	5,633,196	3,396,296
Medium term notes	4,864,378	6,171,354
Total	10,497,574	9,567,650

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

	December 31, 2018	December 31, 2017
Commercial paper	5,633,196	3,396,296
Medium term notes	70,592	1,117,226
Total	5,703,788	4,513,522

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(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 December 31, 2018 is as follows:

Expiry	Currency	Face value	Book value (USD)
Due January 3, 2019 at 2.33%	USD	217,000	216,972
Due January 3, 2019 at 2.36%	USD	368,000	367,952
Due January 4, 2019 at 2.31%	USD	421,000	420,919
Due January 4, 2019 at 2.36%	USD	35,000	34,993
Due January 4, 2019 at 2.46%	USD	1,028,000	1,027,789
Due January 7, 2019 at 2.52%	USD	58,000	57,976
Due January 7, 2019 at 2.53%	USD	341,500	341,356
Due January 9, 2019 at 2.53%	USD	250,000	249,859
Due January 10, 2019 at 2.53%	USD	250,000	249,842
Due January 10, 2019 at 2.53%	USD	300,000	299,810
Due January 16, 2019 at 2.36%	USD	89,000	88,912
Due January 16, 2019 at 2.41%	USD	41,000	40,959
Due January 16, 2019 at 2.45%	USD	200,000	199,796
Due January 16, 2019 at 2.45%	USD	155,000	154,842
Due January 23, 2019 at 2.55%	USD	31,500	31,451
Due January 23, 2019 at 2.57%	USD	512,000	511,196
Due January 24, 2019 at 2.56%	USD	23,500	23,462
Due January 24, 2019 at 2.42%	USD	100,000	99,845
Due January 24, 2019 at 2.42%	USD	50,000	49,923
Due January 24, 2019 at 2.42%	USD	60,000	59,907
Due January 30, 2019 at 2.51%	USD	450,000	449,090
Due January 30, 2019 at 2.51%	USD	66,000	65,867
Due February 1, 2019 at 2.53%	USD	457,000	456,004
Due February 25, 2019 at 2.55%	USD	135,000	134,474
			5,633,196

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(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.

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Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(Thousands of U.S. dollars)

5. Debt (continued)

(c) Medium term notes (continued)

The book value of the medium term notes at December 31, 2018 is as follows:

Expiry	Notional value	Currency	Book value (USD)
September 23, 2019	100,000	AUD	70,592
January 31, 2020	100,000	CAD	73,374
July 9, 2020	750,000	EUR	858,750
March 18, 2022	1,000,000	EUR	1,145,000
July 15, 2023	1,000,000	USD	999,162
September 18, 2029	1,500,000	EUR	1,717,500
			4,864,378

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 two repayments for the year ended December 31, 2018. The remaining change in book value of the medium term notes from December 31, 2017 to December 31, 2018 is due to the foreign exchange translation gain of \$154,590 (note 7) offset by the amortization of debt issue costs of \$187. The foreign exchange translation gain is comprised of an unrealized foreign exchange gain of \$189,937 offset by a realized foreign exchange loss upon repayment of the September 6, 2018 medium term note of \$35,347.

(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.

TOTAL CAPITAL CANADA LTD.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017
(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 December 31, 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

	Year ended December 31, 2018	Year ended December 31, 2017
Income on related party loans	279,435	207,666
Management fee with related party	1,019	699
Gain on derivatives	–	553,579
Foreign exchange gain on translation of foreign currency denominated debt	154,590	–
Other financial income	118,057	491,712
	<u>553,101</u>	<u>1,253,656</u>

(b) Finance expense

	Year ended December 31, 2018	Year ended December 31, 2017
Interest on borrowings	279,435	207,666
Finance fees	944	650
Other financial expense	154,590	553,579
Foreign exchange loss on translation of foreign currency denominated debt	–	491,712
Loss on derivatives	118,057	–
	<u>553,026</u>	<u>1,253,607</u>

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Notes to the Financial Statements
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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, 2018 was \$10,852,243 (December 31, 2017 - \$9,812,320).

	December 31, 2018	December 31, 2017
Carrying amount		
Cash	1,009	1,162
Interest receivable on related party loans	37,608	37,798
Fair value of derivatives	—	4,080
Related party loans	10,813,626	9,769,280
Total	10,852,243	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.

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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 December 31, 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)	10,497,574	11,034,355	5,728,800	5,305,555
Interest expense on debt	–	628,459	97,186	531,273
Interest differential on swaps	–	444,960	83,938	361,022
Related party loans	37,608	37,608	37,608	–
Accounts payable and accrued liabilities	1,029	1,029	1,029	–
	10,536,211	12,146,411	5,948,561	6,197,850

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.

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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.

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

(d) Market risk (continued)

(ii) Interest rate risk (continued)

At December 31, 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 23, 2019	100,000	AUD	90,300	LIBOR+25.500bp	(18,454)
January 31, 2020	100,000	CAD	92,005	LIBOR+30.500bp	(17,885)
July 9, 2020	500,000	EUR	651,750	LIBOR+82.500bp	(67,462)
July 9, 2020	250,000	EUR	325,700	LIBOR+82.400bp	(33,547)
March 18, 2022	500,000	EUR	647,450	LIBOR+64.230bp	(58,599)
March 18, 2022	500,000	EUR	647,000	LIBOR+64.520bp	(58,199)
July 15, 2023	500,000	USD	500,000	LIBOR+81.250bp	(12,216)
September 18, 2029	500,000	EUR	647,200	3.3645%	(28,621)
September 18, 2029	500,000	EUR	647,400	3.1925%	(18,226)
September 18, 2029	500,000	EUR	647,050	3.3555%	(1,667)
					(314,876)

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)

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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 December 31, 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 December 31, 2018 (level 2 fair value).

The fair value of the medium term notes at December 31, 2018 is as follows:

Expiry	Notional value	Currency	Fair value (USD)
September 23, 2019	100,000	AUD	72,120
January 31, 2020	100,000	CAD	74,777
July 9, 2020	750,000	EUR	888,268
March 18, 2022	1,000,000	EUR	1,190,031
July 15, 2023	1,000,000	USD	990,386
September 18, 2029	1,500,000	EUR	1,717,501
			4,933,083

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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:

	December 31, 2018	December 31, 2017
Current asset	–	2,552
Non-current asset	–	1,528
Current liability	(18,454)	(33,364)
Non-current liability	(296,422)	(167,535)
	(314,876)	(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.

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11. Supplemental cash flow information

	Year ended December 31, 2018	Year ended December 31, 2017
Interest receivable on related party loans	190	(20,880)
Accounts payable and accrued liabilities	217	(196)
Interest payable (related party loans)	(190)	20,880
Change in related party loans related to fair value of derivatives:		
Current asset	14,910	(33,364)
Non-current asset	(128,887)	582,863
Current liability	(2,552)	2,552
Non-current liability	(1,528)	1,528
Net change in non-cash working capital	(117,840)	553,383