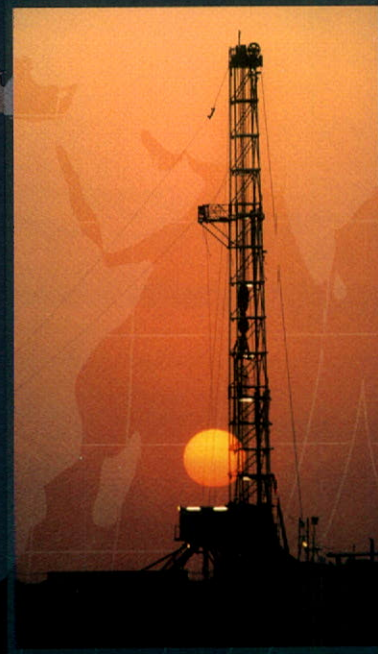


# TALISMAN

E N E R G Y



2000 ANNUAL REPORT



## TALISMAN'S PROFILE

Talisman Energy Inc. is the largest Canadian oil and gas producer. The Company has demonstrated a consistent track record of growth and value creation:

- ◆ 1995-2000 production growth averaged 17% annually
- ◆ 1995-2000 cash flow per share growth averaged 27% annually
- ◆ Five year proved finding, development and acquisition costs: \$6.35/boe
- ◆ Five year proved reserve additions: 1.2 billion boe (233% production replacement)



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### Business Activities

- ◆ Exploration
- ◆ Development
- ◆ Operations
- ◆ Marketing
- ◆ Mergers, Acquisitions and Asset Trading

### Products

- ◆ Crude oil
- ◆ Natural gas
- ◆ Natural gas liquids

### Company Information

- ◆ Established in 1953 as BP Canada
- ◆ Became an independent oil and gas producer in 1992
- ◆ Commenced international operations in 1994
- ◆ Headquartered in Calgary, Alberta
- ◆ Employs 1,263 people

### Ownership and Trading

- ◆ Listed on The Toronto Stock Exchange and the New York Stock Exchange
- ◆ Included in S&P/TSE 60
- ◆ Enterprise value \$10 billion
- ◆ 135.3 million common shares, widely held
- ◆ Total trading volume of 187.8 million shares in 2000

Talisman offers a premium investment with a diverse portfolio of exploration and development opportunities, technical and commercial skills, quality assets and financial strength.





Jim Buckee, President and Chief Executive Officer

*In the year 2000, Talisman produced outstanding results. Production increased by 32%, new producing assets were integrated, while costs were constrained, positioning the Company to benefit from a strong oil price and unprecedented gas prices. We continued to layer in reliable long-term production in the North Sea, Indonesia and Sudan. And our activities are conducted in a safe and environmentally responsible manner that respects the communities in which we operate.*

These results are a testament to the skills of our employees, an experienced management team, and a growing core of profitable assets. The consistent and disciplined application of our strategy continues to work to the benefit of our shareholders and other stakeholders.

Cash flow reached \$2.4 billion (\$17.51/share), and net income was \$906 million (\$6.41/share). Both figures easily beat the previous record achieved in 1999. At year end, reserves per share were up 10% and we replaced 156% of our production at replacement costs of \$5.72/boe.

## OPERATIONS

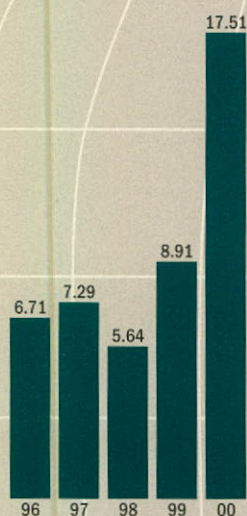
In 2000, we spent a record \$686 million in Canada, of which some 75% was directed at gas production. Canadian production was up 12%, despite operating difficulties, including adverse weather, unexpected plant turnarounds and maintenance and regulatory delays. Nonetheless, we exited the year at 775 mmcf/d and 65,000 bbls/d. Talisman's Canadian natural gas production increased 11% over 1999, compared to an estimated 2% increase for the industry. We acquired two pipelines and over 500,000 net acres of land to maintain our two to three year rolling exploration and development inventory.

The highlight of North Sea operations last year was the acquisition of the Fourth Round assets, encompassing the Piper, Claymore, Tartan, Highlander, Petronella and other fields. This was a major undertaking involving the completion of over 150 agreements. In addition, the integration of people and operations went very smoothly, a credit to the hard work and professionalism of all involved. The acquired fields and infrastructure provide Talisman with a large, low cost inventory of opportunities in addition to approximately 50,000 bbls/d of oil

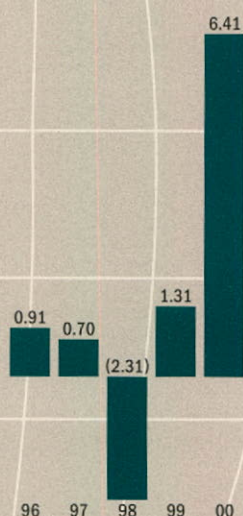


## HIGHLIGHTS

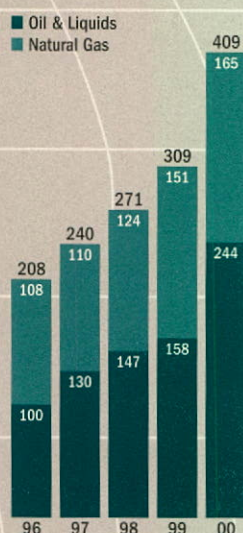
**Cash Flow Per Share**  
(dollars)



**Net Income (Loss) Per Share** (dollars)



**Production**  
(mboe/d)



	2000	1999	1998	1997	1996
<b>FINANCIAL</b> (millions of Canadian dollars unless otherwise stated)					
Cash flow	<b>2,412.8</b>	1,110.8	631.1	797.4	697.4
Net income (loss)	<b>906.3</b>	176.8	(258.8)	77.1	94.9
EBITDAX	<b>2,901.7</b>	1,351.9	813.0	902.4	848.7
Exploration and development expenditures	<b>1,179.0</b>	996.0	1,145.2	950.6	556.9
Total assets	<b>8,675.7</b>	7,808.1	5,457.2	5,030.9	3,757.4
Long-term debt	<b>1,733.3</b>	2,194.8	2,086.3	1,738.8	898.7
Shareholders' equity	<b>3,663.6</b>	3,623.0	2,214.0	2,186.6	2,094.0
Per common share (dollars)					
Cash flow	<b>17.51</b>	8.91	5.64	7.29	6.71
Net income (loss)	<b>6.41</b>	1.31	(2.31)	0.70	0.91
Diluted net income (loss)	<b>6.32</b>	1.30	(2.31)	0.69	0.90

### PRODUCTION (daily average production)

#### Oil and liquids (bbls/d)

Canada	<b>66,374</b>	58,489	57,585	51,217	44,301
North Sea	<b>111,902</b>	59,256	57,480	50,502	33,038
Indonesia	<b>20,206</b>	28,852	31,684	28,458	22,621
Sudan	<b>45,869</b>	11,726	—	—	—
<b>Total oil and liquids</b>	<b>244,351</b>	158,323	146,749	130,177	99,960

#### Natural gas (mmcf/d)

Canada	<b>755</b>	681	631	558	557
North Sea	<b>122</b>	115	104	100	90
Indonesia	<b>111</b>	108	13	—	—
<b>Total natural gas</b>	<b>988</b>	904	748	658	647

<b>Total mboe/d</b>	<b>409</b>	309	271	240	208
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<b>Shares outstanding at December 31 (millions)</b>	<b>135.3</b>	138.3	118.9	109.6	109.1
<b>Number of permanent employees at December 31</b>	<b>1,263</b>	1,113	986	945	791



## TALISMAN IN 2000



*Strong operating performance combined with higher oil and gas prices enabled Talisman to achieve new heights in 2000, posting record cash flow, production, earnings and reserves. This momentum will continue into 2001 with record levels of spending.*

### RESULTS FOR 2000

- ◆ Production of 409,000 boe/d, up 32% over 1999
- ◆ Cash flow of \$17.51/share (\$2.4 billion), an increase of 97%
- ◆ Net income of \$6.41/share (\$906 million), up 389%
- ◆ Exploration and development spending of \$1.2 billion; 728 wells drilled, with an 88% success rate
- ◆ Average realized prices of \$39.48/bbl for oil and liquids and \$4.63/mcf for natural gas
- ◆ Year end debt of \$1.7 billion and debt to cash flow of 0.7 times
- ◆ Talisman replaced 156% of production, with proved finding, development and acquisition costs of \$5.72/boe; 443% of international production at \$1.94/boe (proved plus probable finding, development and acquisition)
- ◆ Unit operating costs for oil decreased 7%; natural gas costs were constant
- ◆ Repurchase of five million shares through a normal course issuer bid to February 2001

In Canada, drilling success continued, particularly in the Alberta Foothills, Greater Arch, Chauvin and Whitecourt areas. The acquisition of two pipeline systems opens up a large new exploration area.

The acquisition of several North Sea oil fields added 49,000 bbls/d of production and numerous exploration and development opportunities. The massive potential of our Indonesian gas property continues to unfold, supported by two new sales

contracts. A major new gas discovery was made in Trinidad. Production in Sudan continues to exceed expectations and development of our Algerian oil fields has begun.

### 2001 OBJECTIVES

- ◆ Production of 430,000-450,000 boe/d with increased Canadian gas sales, production from new North Sea oil fields and expansion in Sudan
- ◆ \$1.7 billion in exploration and development spending
- ◆ Unit operating costs of less than \$5.50/boe
- ◆ Cash flow in excess of \$20/share assuming US\$26/bbl WTI oil prices, US\$5.00/mcf NYMEX gas prices and continuing the share repurchase program
- ◆ Finding and development costs in the \$7-8/boe range

Talisman enters 2001 in strong financial shape, with a large inventory of work in progress. We will advance longer-term opportunities, including evaluation of the four billion barrel potential in our Canadian heavy oil leases.

We will conduct an extensive 3-D seismic program on our newly acquired North Sea acreage and continue to delineate the multi-trillion cubic foot Corridor Gas field in Indonesia.

We plan to drill over 40 wells in Sudan, where there is enormous remaining oil potential. We will delineate our gas discovery in Trinidad and drill an oil prospect. We also will evaluate a potential 250 mmbbls prospect in Colombia.



production. The sum of these opportunities will allow us to grow production for many years. At current prices, we expect this \$650 million acquisition to pay out before the end of 2001. Talisman is now one of the larger operators in the North Sea, which is key to accessing undeveloped fields and smaller exploration prospects.

Total North Sea production increased by 69%. Proved oil reserves increased by 25%. North Sea operating costs averaged \$8.25/boe in 2000, a 16% decrease from the previous year. Our target for 2001 is below \$8/boe.

In Indonesia, further delineation of the Suban discovery and reservoir testing demonstrated a very large gas find. With the agreement of two new gas sales contracts, we expect production will increase from about 100 mmcf/d currently to over 140 mmcf/d in 2003, and potentially doubling again as infrastructure connects new markets.

Sudan continued to exceed expectations, with production averaging almost 46,000 bbls/d. We are poised for the first major expansion and debottlenecking of central plant facilities. We drilled a total of 17 wells in 2000 and plan 42 in 2001, including a number of prospects in the relatively unexplored western part of the block.

We remain committed to constructive engagement in Sudan. Talisman has made significant progress on its community development projects. We are striving to demonstrate that development and Talisman's presence can be a catalyst for progress, and we hope peace, in Sudan. Details of our community development and social responsibility efforts are documented in our first Corporate Social Responsibility Report which has been provided to shareholders and is also available on our website.

## PRICES

WTI prices averaged US\$30.20/bbl during 2000, an increase of 57% over the prior year. Prices started to fall towards the end of the year with concerns of a US recession, prompting OPEC to cut quotas by 1.5 mmbbls/d. NYMEX gas prices averaged US\$4.35/mcf and reached a staggering US\$10/mcf in December, creating chaos in electricity markets, especially in California. Canadian gas prices were similarly strong now that there is ample pipeline capacity into US markets.

During most of the year, markets were anticipating an imminent fall in commodity prices which did not happen. In fact, oil inventories and domestic gas storage fell with cooler than average winter temperatures. As a result, energy prices remained high and hedging strategies came to grief. We averaged a record \$34.74/boe in 2000, but hedging losses averaged \$2.53/boe. We enter 2001 with less than 10% of our oil volumes hedged.

## SHARE PRICE

Talisman's share price increased 51% over the course of year. Although Talisman outperformed the oil and gas producers index, the TSE 35 as well as the Dow Jones Industrial Average, I remain convinced that Talisman shares, in common with many of our peers, are undervalued. As I write this, Talisman shares have reached \$60 and, based on the underlying value of our assets and expected financial performance in 2001, I believe should be valued much higher. In February 2000, we announced a normal course issuer bid designed to pass the benefits of the higher commodity price to our shareholders. We repurchased approximately five million shares to February 2001 and have renewed the program for another year.

## OUTLOOK

We enter 2001 with a strong, diversified portfolio of assets, and low debt levels, which leaves us strategic and tactical flexibility. We plan a record \$1.7 billion exploration and development program. We will continue steady growth in Canada and progress several developments in the North Sea, while expansion of capacity continues in Sudan and Indonesia. Algeria is moving towards first production in 2003. We will drill additional wells in Trinidad to delineate existing discoveries as well as explore new opportunities. We are also positioning the Company in new exploration areas as well as exploiting assets that we already own, such as heavy oil leases. We will be exploring for natural gas in both the northeastern and northwestern US as well as a deep gas test at Monkman.

Talisman had 1.2 billion boe of proved reserves at year end, plus an additional 1.4 billion boe of proved and possible reserves in the development hopper, placing a 17 year reserve life index within our immediate grasp.

Acquisitions remain part of our strategy but only if we are able to generate meaningful value for shareholders. As an illustration of our discipline, in the past 18 months we have completed many detailed reviews but only three resulted in successful bids (Rigel, Highridge and the Fourth Round Assets). We will grow from internal projects, but will continue to evaluate acquisition opportunities.

## GENERAL

The world runs on energy. The recent events in California and, to a lesser extent other parts of North America and Europe where the prices of oil, gas and electricity have soared to unprecedented levels, demonstrate that neglect of this fundamental fact can lead to disruption and hardship. These events challenge the prevailing orthodoxy that the future contains endless growth sustained by cheap energy. And this energy is presumed to be supplied 65% from oil and gas.





(left to right):

**Bob Redgate**, Vice-President, Human Resources and Corporate Services  
**Nigel Hares**, Vice-President, Frontier and International Operations

**Mike McDonald**, Vice-President, Finance and Chief Financial Officer  
**Bob Mitchell**, Vice-President, Canadian Operations

**Jim Buckee**, President and Chief Executive Officer  
**Joe Horler**, Vice-President, Marketing  
**Ted Bogle**, Vice-President, Exploration  
**Jackie Sheppard**, Vice-President, Legal and Corporate Projects, and Corporate Secretary

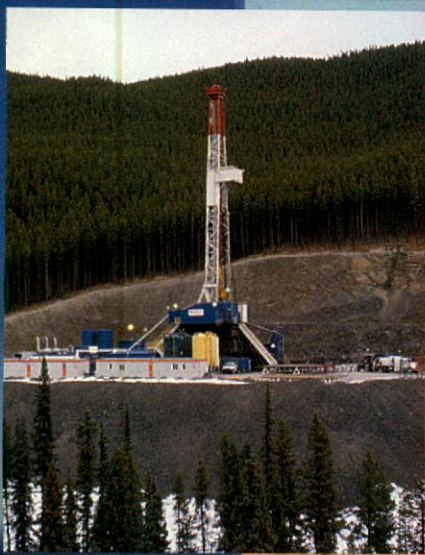
The demand reaction in oil consumption appears from current data to be limited but much more significant in the case of domestic gas. It remains to be seen whether the relocation of high energy users away from North America is permanent. In any case it seems that the previous price paradigm of \$2 domestic natural gas and \$18 oil is insufficient to reward the investment needed to secure the supply of energy to the US market and the world. I believe energy prices will remain strong and the industry will prosper. There is also recognition that onshore North American hydrocarbon basins are too mature and too competitive for larger producers to generate the growth expected of them through the drill bit. While each investment is profitable, it is difficult to do enough of them to produce growth in aggregate. This dynamic, that OECD energy demands can only be met by oil and gas from the Middle East, is bound to have wide reaching ramifications, not least on foreign policy. Larger opportunities present themselves internationally and Talisman is one of the few companies to make this transition successfully.

I would like to take this opportunity to thank Talisman's Board for their support during the past year. In particular, I would like to thank our two retiring directors, Bob Bandeen and Peter Widdrington, Chairman, for their many insights and contributions to Talisman. Peter joined the board of BP Canada in 1976 and Bob in 1982 and between them, have provided continuity and stewardship during the many transformations in size, business focus and structure between then and now.

I hope and expect that Talisman will continue to show profitable growth next year and into the future.

**James W. Buckee**  
 President and Chief Executive Officer  
 March 12, 2001





Talisman remains committed to the upstream (exploration and production) oil and gas business, in the belief that demand will continue to increase with population and economic growth. Total energy costs are approximately US\$2 trillion annually. The world consumes 28 billion barrels of oil per year and new exploration discoveries replace significantly less than half of this, yet oil and gas are projected to provide two-thirds of the growth in energy demand over the next decade.

Over the 1990-1999 period, oil prices averaged US\$20/bbl, with global demand growing by almost 10 mmbbls/d. The majority of the increased supply came from OPEC. This suggests higher prices are required to encourage upstream investment. Annual investment of US\$50-100 billion in oil alone will be required over the next decade to meet expected demand.

Although the price of oil averaged more than US\$30 for the first time since 1983, consumption continued to increase, while crude oil and product inventory levels remained near record lows. Worries about a US recession and falling oil demand precipitated a sharp fall in oil prices during December. However, cold weather and OPEC's announcement to cut production pushed prices up in January. With world oil

demand growing and production from major fields declining, the long-term trend for oil prices is upward with dependence on OPEC increasing.

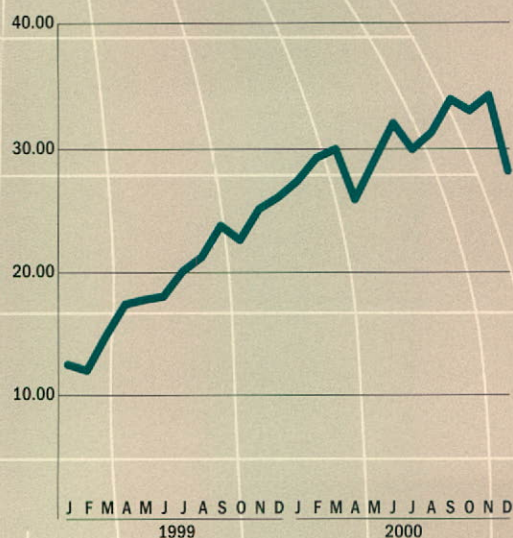
Unlike crude oil, which is priced and traded globally, natural gas is mainly a regional commodity, limited by pipeline economics, gas-to-liquids conversion or LNG facilities. Annual US natural gas demand has grown by 3 tcf over the past decade and now averages 22 tcf/year. Approximately two-thirds of this incremental supply has come from Western Canada, in what is now an integrated North American gas market.

Although prices are difficult to forecast, the underlying fundamentals suggest they will be significantly higher than the historical average. Higher costs appear to have had a negative impact on gas demand. On the supply side, despite resurgence in North American drilling, there has been limited success at adding significant new production.

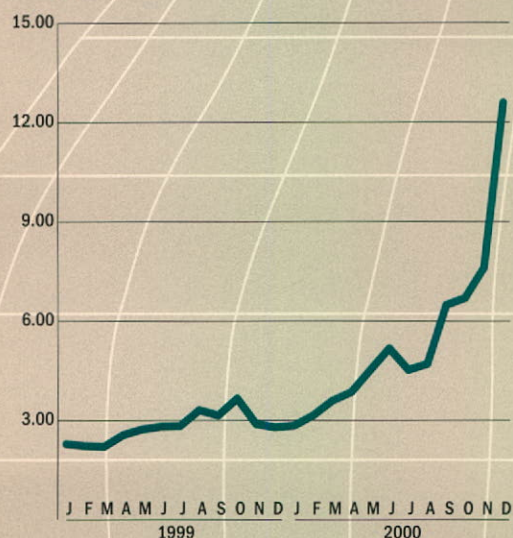
Talisman uses both physical contracts and financial instruments to mitigate commodity price risk. In 2000, Talisman hedged approximately 34% of its oil production. Oil contracts currently in place for 2001 have 20,000 bbls/d hedged to allow Talisman to take advantage of NYMEX oil prices up to US\$29.80/bbl and provide a US\$3.00/bbl premium should the index average below US\$21.50.



**WTI Oil Prices**  
(US\$/bbl)



**Alberta Spot Natural Gas Prices**  
(C\$/mcf)



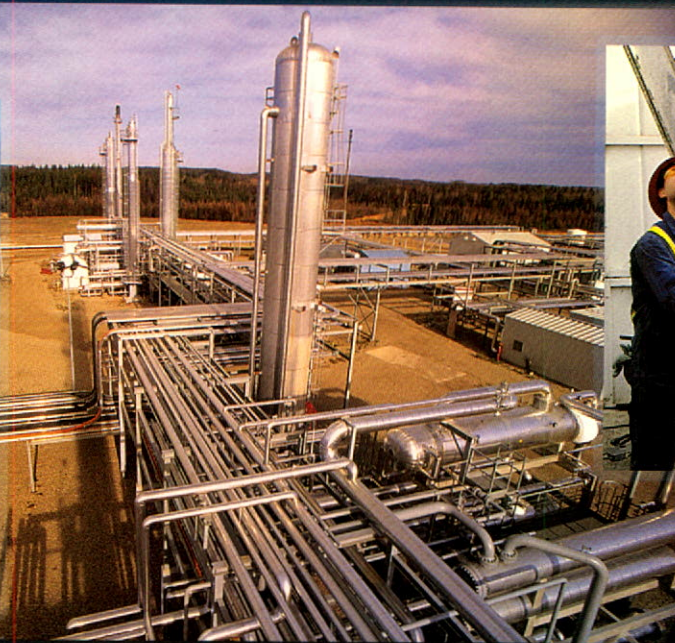
Talisman has a large and varied portfolio of gas sales contracts, reflecting the corporate acquisitions made over the past five years and the fixed market commitments of each company. In 2001, Talisman will deliver gas under some 380 contractual agreements, with Talisman's contracted pipeline transportation costs equaling \$100 million. Within this portfolio, Talisman directs an ever increasing component of its sales to short term

markets in Alberta and British Columbia. Over time however, Talisman has committed volumes to the market on a fixed price basis using a combination of physical and financial instruments. For 2001, this commitment is for 110 mmcf/d of gas in Alberta at a price of \$2.89/mcf and 31 mmcf/d in British Columbia at a price of \$2.46/mcf. These volumes total approximately 19% of Talisman's expected 2001 Canadian gas production, declining to 12% in 2002.

Prices <sup>1</sup>	2000	1999	1998	1997	1996
<b>Oil and liquids (\$/bbl)</b>					
Canada	<b>37.64</b>	23.85	15.72	22.63	24.55
North Sea	<b>40.38</b>	28.35	18.54	26.15	27.91
Indonesia	<b>42.50</b>	26.20	18.01	26.27	27.83
Sudan	<b>38.52</b>	31.24	—	—	—
<b>Total oil and liquids</b>	<b>39.48</b>	26.55	17.35	24.84	26.45
<b>Natural gas (\$/mcf)</b>					
Canada	<b>4.66</b>	2.54	2.02	1.98	1.67
North Sea	<b>3.58</b>	3.06	3.90	3.88	3.35
Indonesia	<b>5.64</b>	3.18	1.65	—	—
<b>Total natural gas</b>	<b>4.63</b>	2.68	2.26	2.27	1.91
<b>Total (\$/boe)</b>	<b>34.74</b>	21.42	15.61	19.64	18.57

<sup>1</sup> Prices are before hedging and do not include synthetic oil.





### EIGHT YEARS OF STRATEGIC POSITIONING

Since our inception as Talisman in 1992, we have grown from a 50,000 boe/d mid-cap company to become the largest Canadian oil and gas producer, with a diversified production base of over 400,000 boe/d. Importantly, we have accomplished this without sacrificing value creation. Talisman has consistently outperformed most of our large, North American exploration and production peer group in terms of both cash flow per share and production per share.

We use a judicious mix of exploration drilling combined with corporate and property acquisitions to maintain a large, low cost inventory of drilling prospects. This "development hopper" drives our production growth.

Our exploration program focuses on projects and areas with a relatively high chance of success and short development lead times. Maintaining a high level of ownership and control allows us to keep costs down and bring new projects on stream quickly. Talisman successfully completed nine major acquisitions over the past eight years. Each acquisition has been integrated quickly, with an emphasis on cost reduction, retention of key skills, accelerated development drilling and increased production.

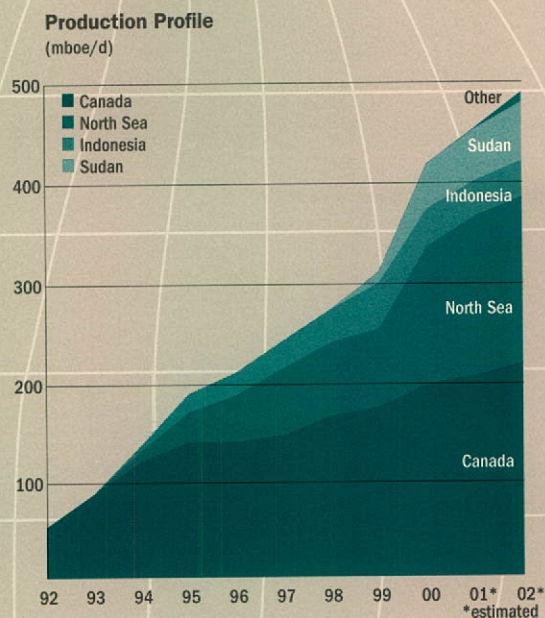
Talisman has strategically made a transition to an international company, exploiting world scale oil opportunities overseas, while maintaining our position as one of North America's largest natural gas producers. A growing portfolio of Canadian and international opportunities provides the basis for a bright future for Talisman.

### FINANCIAL STRENGTH

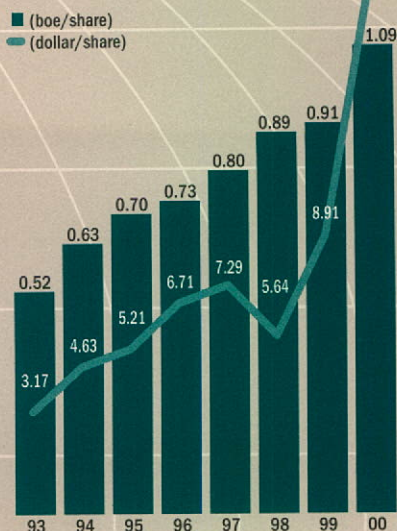
Talisman increased cash flow per share to \$17.51, a 97% increase over 1999. Since 1992, the Company has grown cash flow per share at an annual rate of 34%, driven in part by prices, production per share growth and an increasing percentage of profitable international production. Total cash flow has grown from \$87 million to over \$2.4 billion during that period.

Talisman maintains targets for debt to cash flow of two times or less and 40% or less for debt to debt-plus-equity. The Company was well below these targets at year end with a debt to cash flow ratio of 0.7 and debt to debt-plus-equity of 32%.





**Production Per Share and Cash Flow Per Share**



## QUALITY ASSETS

Talisman grew production per share by 20% in 2000, with annual compound growth averaging 14% since 1992. We have high quality reserves, balanced between light oil and natural gas.

Canada provides a large production base and is a significant net cash generator. We are one of North America's major gas producers, with gas representing about two-thirds of our Canadian production. In North America, we have established expertise as one of the pre-eminent onshore deep gas explorers, particularly in the thrust and fold belt plays along the Rocky Mountains.

International operations now account for over 50% of our production. The North Sea has been a major growth area, largely through well-timed, strategic acquisitions, which provide a wealth of exploration and development opportunities. Talisman also participates in a major gas development project in Indonesia and a world scale oil project in Sudan. We are actively adding layers of large, long life assets. Internationally, we are targeting big oil prospects, near infrastructure in proven hydrocarbon provinces.

Talisman's size and technical skills provide us with a competitive advantage. Last year, we added 2.5 bcf per successful gas well in Canada, three times the industry average. Internationally, we are finding almost 2 mmbbls per well compared with an average of 150,000 bbls for the industry in Canada.

## CONTINUOUS REPLACEMENT OF LOW COST RESERVES

Talisman has grown proved reserves per share at a rate of 13% annually since 1992. At year end 2000, the Company had approximately 1.2 billion boe of proved reserves, an increase of 8% over 1999. Talisman performs a thorough analysis of its reserves each year, using independent engineers to confirm a portion of internal evaluations. Our objective is to have all major properties independently audited on a five year rolling basis.

We are committed to prudent reserves reporting and within Canada, book one of the lowest percentages to the proved undeveloped category.

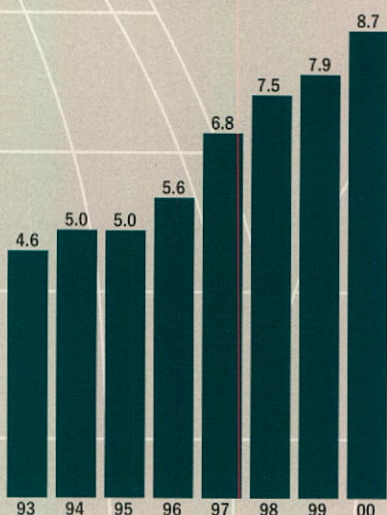
Over five years, we have added 1.2 billion boe of proved reserves (approximately two-thirds through drilling and one-third through acquisitions), replacing 233% of production.

## AN EFFICIENT AND GROWING CAPITAL PROGRAM

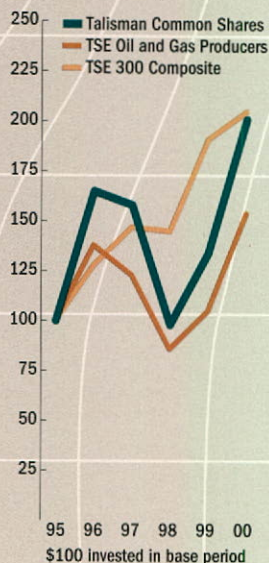
Talisman spent a record \$1.2 billion on exploration and development in 2000, an increase of 18%. Approximately two-thirds of spending was on development projects. Canadian exploration and development spending was \$686 million, an increase of 112%.



**Proved Reserves Per Share**  
(boe/share at year end)



**Share Price vs TSE Indices**  
(at December 31)



International exploration and development spending was \$493 million. The largest area was the North Sea with spending of \$303 million. Spending in Indonesia and Sudan each accounted for approximately 6% of the total.

Over the past five years, Talisman's drilling success rate has averaged almost 90%.

Talisman explores for or acquires reserves, whichever adds the most value. Our finding, development and acquisition (FD&A) costs averaged \$5.72/boe in 2000, replacing 156% of production. Over the past five years, these costs averaged \$6.35/boe, a very competitive performance.

The recycle ratio:

$$\text{netbacks} = \frac{\text{revenue} - (\text{operating costs} + \text{royalties})}{\text{finding and development costs}}$$

is a key measure of investment efficiency. Higher oil and gas prices combined with our competitive finding and development costs in 2000 led to a recycle ratio of 3.4. Talisman's objective is a recycle ratio of 1.5 or more to ensure continued reserves replacement and value creation.

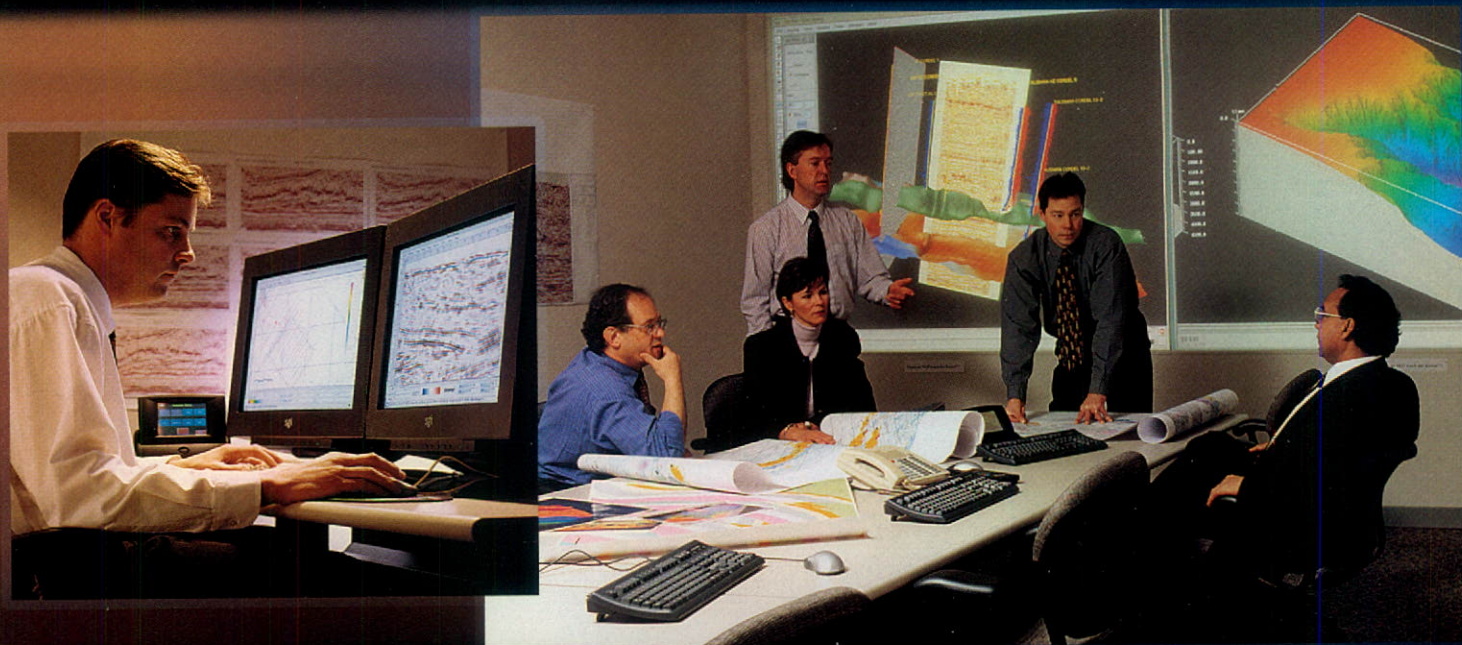
Proved F&D Costs (\$/boe)	2000	3-year	5-year
Canadian	7.07	6.13	5.85
International	5.06	5.97	5.31
Total	6.08	6.04	5.54
Total including acquisitions	5.72	6.44	6.35

Recycle Ratio	2000	3-year	5-year
Netback (\$/boe)	20.73	14.39	13.35
Finding and development	3.4	2.4	2.4
Finding, development and acquisition	3.6	2.2	2.1

## SHARE PRICE PERFORMANCE

Talisman's objective is to outperform the oil and gas producers index on The Toronto Stock Exchange. We have done this consistently from our inception in 1992. One hundred dollars invested in Talisman in December 1994 was worth \$201.45 at the end of 2000.





*Talisman's objective is to increase reserves and production per share at a rate of 10-15% annually, using our commercial and technical skills to continue creating value in the hydrocarbon business.*

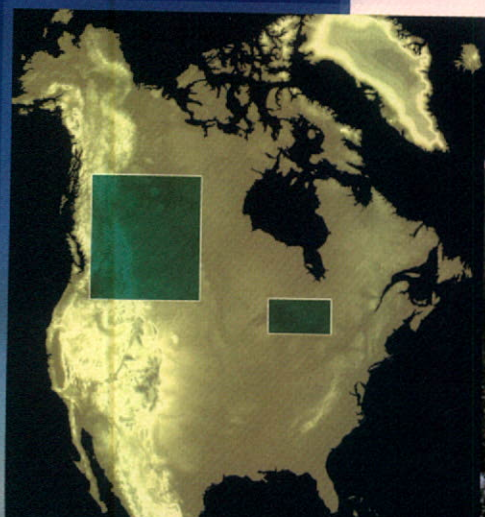
#### TALISMAN'S SUCCESSFUL STRATEGY IS BASED ON THE FOLLOWING BELIEFS

- ◆ Demand for oil and natural gas will continue to increase with population and economic growth
- ◆ World scale hydrocarbon discoveries are becoming increasingly rare; exploration risks can be mitigated by focusing on proved hydrocarbon basins
- ◆ Corporate and asset acquisitions are viable ways to add value as long as they provide incremental exploration and development opportunities
- ◆ Significant new oil developments require a high level of technical, commercial and project management skills
- ◆ Low costs are an essential part of value creation

#### THE MAIN ELEMENTS OF TALISMAN'S STRATEGY

- ◆ Maintain a large Canadian asset base
- ◆ Retain a high level of operatorship to control costs, timing and technical input
- ◆ Establish commercial hubs to exploit second phase exploration and development opportunities
- ◆ Explore for or acquire reserves, whichever adds the most value, maintaining a two to three year project development inventory
- ◆ Focus on natural gas in Canada and oil elsewhere
- ◆ Deploy the majority of our capital on low risk projects with short lead times





## STRATEGY AND OBJECTIVES

*Talisman's continuing growth worldwide is supported by our large Canadian operations base. Growth in Canada will come from natural gas exploration and development, with increasing emphasis on larger, deeper prospects. Talisman's strategy is to develop core areas near infrastructure, while maintaining a high level of operatorship to provide control over costs and capital spending.*

## RESULTS FOR 2000

Production averaged 192,200 boe/d, an increase of 12% over 1999. Gas production, which averaged 755 mmcf/d, an increase of 11% over the previous year, was affected by weather delays, regulatory issues, extended gas plant turnarounds and maintenance.

Unit operating costs averaged \$3.64/boe, an increase of 12% over 1999. These increases resulted from certain Rigel properties purchased in 1999, increases in processing costs and fuel charges within a generally higher cost environment.

The Rigel acquisition paid major dividends in 2000. It established Talisman as the dominant player in the Greater Arch area, where production increased 52% to 203 mmcf/d. About 40% of Talisman's spending in the Greater Arch was on former Rigel properties.

Highlights for the year include:

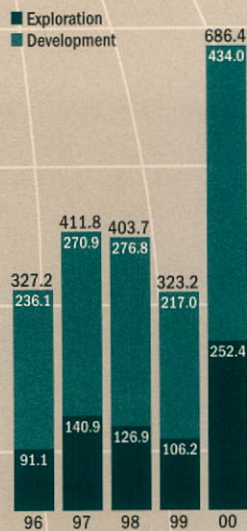
- ◆ A substantial drilling program with 256 gas wells and 282 oil wells (88% success)
- ◆ Exploration and development spending of \$686 million, adding proved reserves of 93.2 mmboe at \$7.07/boe, with 134% of production replaced
- ◆ 75% of spending directed toward natural gas, with major programs in the Alberta Foothills and Greater Arch areas
- ◆ An active rationalization program, including 114 transactions involving \$140 million in assets
- ◆ Acquisition of two pipeline gathering systems near our Edson gas plant, which will facilitate a major exploration program west of Edson
- ◆ Domestic gas prices averaging a record \$4.66/mcf (\$10.17/mcf in December)
- ◆ Acquisition of over 500,000 net acres of land



**Production**  
(mboe/d)



**Exploration & Development Expenditures**  
(millions of dollars)



**Proved Reserves**  
(mmboe)



## MAJOR OBJECTIVES FOR 2001

- ◆ Natural gas production of 785-805 mmcf/d
- ◆ Oil and liquids production of 65,000-66,000 bbls/d
- ◆ Operating costs of approximately \$4/boe
- ◆ Exploration and development spending of \$710 million, 75% directed toward natural gas projects
- ◆ Participation in over 650 wells

Talisman maintains a two to three year drilling inventory in Western Canada, which should provide steady production growth. The Company plans to spend a record \$710 million on exploration and development in 2001, focusing on gas prospects in the Alberta Foothills, Greater Arch and Whitecourt areas, as well as low cost oil development at Chauvin. We are also evaluating the potential of our oil sands leases and will drill a deep, Mississippian gas prospect in Monkman.

Talisman is also expanding its exploration programs into the northeastern and northwestern US. In early 2001, the Company announced a major joint venture covering almost one million acres of land in New York and Pennsylvania. Drilling is expected to start later this year.

## DRILLING AND LANDHOLDINGS

	2000		1999	
	Gross	Net	Gross	Net
Drilling (number of wells)				
Oil	282	181.7	88	65.7
Gas	256	138.6	178	78.8
Dry	71	46.4	31	23.2
Total wells drilled	609	366.7	297	167.7
Landholdings (000 acres)				
Developed	2,908.8	1,491.0	2,846.9	1,421.2
Undeveloped	9,720.4	4,266.4	9,918.3	4,527.8
Total acreage	12,629.2	5,757.4	12,765.2	5,949.0

Detailed property reviews and production by area can be found under "Supplementary Information."





## STRATEGY AND OBJECTIVES

*Talisman's North Sea strategy is to continue to develop commercial hubs around core operated properties and infrastructure. A portfolio of high quality, non-operated assets complements this strategy. Talisman is creating value and enhancing production from these assets in a number of ways: infill drilling, satellite development, low risk exploration, cost reduction and third-party tariff receipts.*

## RESULTS FOR 2000

Talisman achieved outstanding results in the North Sea, bolstered by the completion of the Fourth Round Asset acquisitions, transfer of operatorship and commencement of exploration and development programs on the newly acquired properties. These acquisitions add 49,000 bbls/d of production and are expected to pay out before the end of 2001. Talisman now operates the third largest number of fields in the UK North Sea.

Highlights for the year include:

- ◆ Spending \$303 million on exploration and development, plus a net \$224 million on acquisitions
- ◆ Proved reserve additions of 86 mmboe (177% of production) at a cost of \$6.13/boe
- ◆ Acquisitions of operated interests in the Piper, Claymore and Tartan field complexes
- ◆ Average production of 132,200 boe/d, a 69% increase, and significantly above expectations; oil and liquids production increased 89% to 111,900 bbls/d
- ◆ A 16% reduction in operating costs, averaging \$8.25/boe
- ◆ Initial development of the Blake and Halley fields, with the first two wells at Blake testing at higher than expected rates
- ◆ A successful exploration well and tie-in at North Leven in the Clyde area

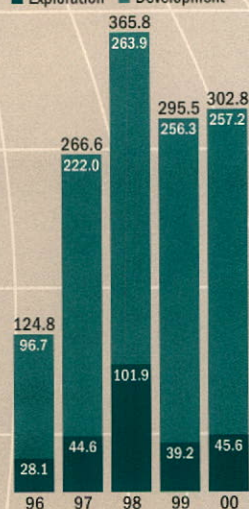


**Production**  
(mboe/d)

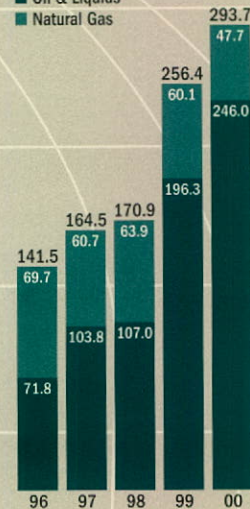
■ Oil & Liquids  
■ Natural Gas

**Exploration & Development Expenditures**  
(millions of dollars)

■ Exploration ■ Development

**Proved Reserves**  
(mmboe)

■ Oil & Liquids  
■ Natural Gas

**MAJOR OBJECTIVES FOR 2001**

- ◆ Oil production of 132,000-138,000 bbls/d and natural gas production of 105-115 mmcf/d
- ◆ Unit operating costs below \$8/boe
- ◆ Production start up for the Blake, Beaulieu, Halley and Hannay developments
- ◆ Exploration and development spending of \$565 million

Talisman's infrastructure and the large inventory of oil prospects in the central North Sea provides confidence in continued growth. Oil production is expected to increase substantially during 2001 as four new fields are brought on production. Spending is expected to total \$565 million, with major programs at Blake, Beatrice, Claymore, Hannay, Halley, Buchan and Tartan. The exploration and development program includes plans for 42 development and nine exploration wells.

**DRILLING AND LANDHOLDINGS**

	2000		1999	
	Gross	Net	Gross	Net
Drilling (number of wells)				
Oil	11	4.1	19	5.8
Gas	4	0.5	5	0.4
Dry	5	2.1	2	1.9
Total wells drilled	20	6.7	26	8.1
Landholdings (000 acres)				
Developed	188.4	88.8	176.6	65.8
Undeveloped	2,024.4	801.0	2,490.4	873.1
Total acreage	2,212.8	889.8	2,667.0	938.9

Detailed property reviews and production by area can be found under "Supplementary Information."





## STRATEGY AND OBJECTIVES

*Talisman's strategy is focused on exploitation of existing oil properties and continued development of a strategic position in emerging new gas markets. Production from the Corridor Gas Project began in October 1998. Massive reserves in the Corridor Block will provide substantial long-term growth of gas sales.*

## RESULTS FOR 2000

The reserve potential in the Corridor Block continues to grow well beyond initial expectations. Milestones were reached with agreements to ship additional volumes to the Caltex steamflood project and a new sales agreement with Singapore Power. With these agreements in place, gas production should increase approximately 40% in 2003.

Highlights for the year include:

- ◆ Production of 38,700 boe/d with natural gas sales of 111 mmcf/d
- ◆ A successful well at Suban-4, testing 80 mmcf/d of low CO<sub>2</sub> natural gas, indicating several tcf of gas in place at Suban
- ◆ Agreement with Caltex for gas sales of 1.1 tcf (396 bcf net) over 19 years
- ◆ Agreement with Singapore Power for 2.3 tcf (338 bcf net) of gas over 20 years (signed in 2001)
- ◆ A total of 60 successful oil wells and two gas wells
- ◆ Proved reserve additions of 25.4 mmboe (179% of production) at a cost of \$2.71/boe
- ◆ Total exploration and development spending of \$69 million



**Production**  
(mboe/d)



**Exploration & Development Expenditures**  
(millions of dollars)



**Proved Reserves**  
(mmboe)



## MAJOR OBJECTIVES FOR 2001

- ◆ Capital spending of \$115 million, with planned construction of a new 300 mmcf/d processing plant at Corridor
- ◆ Oil production of 18,000-19,000 bbls/d and natural gas production of 100-105 mmcf/d
- ◆ Ongoing identification of new gas markets for the Suban development
- ◆ Continued evaluation of ultimate gas potential in the Corridor Block

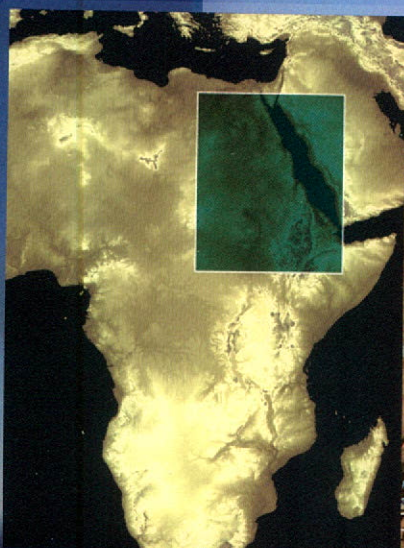
Major priorities in 2001 will be the start of construction of new gas processing facilities and continued delineation of the Suban gas discovery.

## DRILLING AND LANDHOLDINGS

	2000		1999	
	Gross	Net	Gross	Net
Drilling (number of wells)				
Oil	60	29.9	21	11.1
Gas	2	0.8	2	0.7
Dry	5	2.5	6	4.1
Total wells drilled	67	33.2	29	15.9
Landholdings (000 acres)				
Developed	292.6	127.1	291.7	128.0
Undeveloped	1,847.6	1,376.4	1,937.3	1,551.8
Total acreage	2,140.2	1,503.5	2,229.0	1,679.8

Detailed property reviews and production by area can be found under "Supplementary Information."





## STRATEGY AND OBJECTIVES

*Talisman has a 25% interest in the Greater Nile Oil Project, covering four blocks in the Muglad Basin. The Company also owns a 25% interest in a 1,500 km pipeline from the oil fields to Port Sudan on the Red Sea. Talisman will continue to develop and tie in oil fields on Blocks 1a and 2a and is exploring significantly larger targets on Block 4.*

*We continue to make important strides in the areas of community development and social responsibility. Talisman's report on Corporate Social Responsibility is available on our website or by contacting us.*

## RESULTS FOR 2000

Operationally, Sudan continues to perform better than expected. Total production from the project reached a record 200,000 bbls/d at one point during the year against nameplate capacity of 150,000 bbls/d.

Highlights for the year include:

- ◆ Average production of 45,900 bbls/d in 2000, and 49,000 bbls/d in the fourth quarter
- ◆ Spending \$70 million on exploration and development
- ◆ Reserve additions of 26 mmbbls, 152% of production
- ◆ Drilling 16 successful oil wells
- ◆ A successful exploration well at Khairat, testing at 1,983 bbls/d
- ◆ Drilling success at Munga and Bamboo, leading to development of these fields



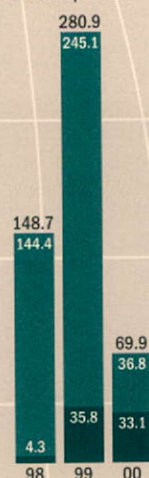
### Production (mboe/d)

■ Oil & Liquids



### Exploration & Development Expenditures (millions of dollars)

■ Exploration  
■ Development



### Proved Reserves (mmboe)

■ Oil & Liquids



## MAJOR OBJECTIVES FOR 2001

- ◆ Production of 50,000-55,000 bbls/d
- ◆ Start up of two new fields, Bamboo and Khairat, and development of the Munga area for 2002 start up
- ◆ Capital spending of \$120 million, including additional pumping capacity on the pipeline to increase nameplate capacity to 230,000 bbls/d and debottlenecking the central plant facilities at Heglig
- ◆ Participation in 17 exploration and 25 development wells

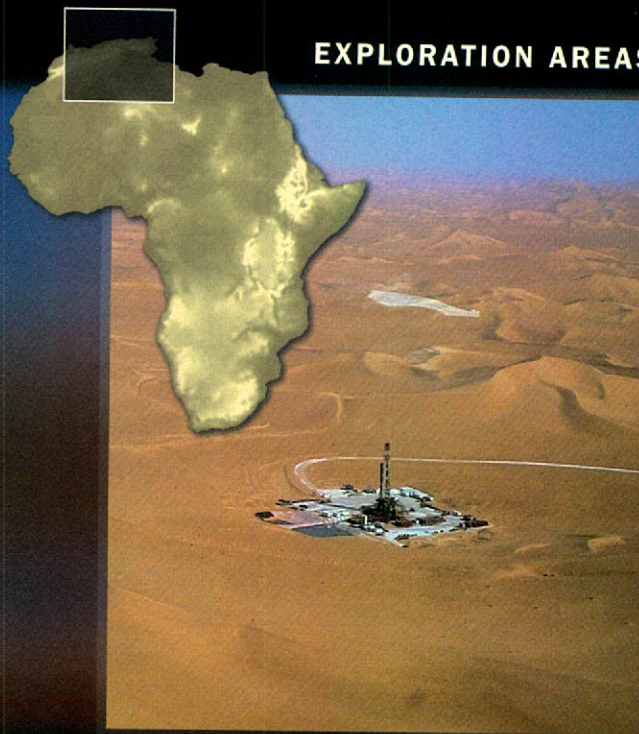
Talisman continues to expand its reserves base and evaluate the huge oil potential in Sudan. Production is expected to increase again in 2001 with facilities modifications. In addition, Talisman plans to drill and test a number of wells on Block 4 on the underexplored western side of the basin.

## DRILLING AND LANDHOLDINGS

	2000		1999	
	Gross	Net	Gross	Net
Drilling (number of wells)				
Oil	16	4.1	39	9.8
Dry	1	0.3	4	1.3
Total wells drilled	17	4.4	43	11.1
Landholdings (000 acres)				
Developed	129.9	32.5	129.9	32.5
Undeveloped	11,956.5	2,989.1	11,956.5	2,989.1
Total acreage	12,086.4	3,021.6	12,086.4	3,021.6

Detailed property reviews and production by area can be found under "Supplementary Information."





*Talisman is exploring in a number of carefully selected hydrocarbon basins around the world. The Company evaluates prospective new areas based on oil and gas potential, technical risk, fiscal terms, access to infrastructure, markets and political risk. The strategy is to explore in regions where production has been established and large opportunities can be brought on stream quickly.*

#### **ALGERIA**

Talisman acquired its interests in Algeria in 1994, drilling numerous successful oil wells. Development of two fields is underway, with first oil production expected in 2003, reaching 20,000 bbls/d.

#### **TRINIDAD**

The Company also holds interests in a number of blocks in Trinidad where a major gas discovery in 1999 was confirmed with a successful delineation well. The Company plans another delineation well and will also drill an oil exploration well in 2001.

#### **COLOMBIA**

Talisman was awarded an exploration block in Colombia in December 2000. Initial environmental impact work is underway, with a seismic program scheduled later in 2001.

Details of these properties can be found starting on page 80 under Supplementary Information.





*Talisman is committed to corporate social responsibility; conducting activities in an economically, socially and environmentally responsible manner; working together with stakeholder groups to identify constructive solutions to problems. We work towards bringing direct benefits to the communities in which we operate, including creation of jobs, expansion of infrastructure and support of community projects. We also strive to observe and promote ethical business practices, and advocate respect and tolerance by and for all people.*

## CODE OF BUSINESS CONDUCT

Ethical business practices are an integral part of our license to operate. Talisman's policies on business conduct have been in place for many years. In December 1999, the Company reinforced these policies by adopting the International Code of Ethics for Canadian Business. This Code, developed specifically for Canadian businesses operating internationally, augments Talisman's continuing commitment to be ethically, socially and environmentally responsible.

The Code sets out a vision, beliefs, values and principles to guide Canadian companies operating abroad. The Code recognizes that national governments have the prerogative to conduct their own affairs in accordance with their sovereign rights, but endorses the fact that all governments should comply with international treaties and agreements, including the protection of human rights and social justice.

Talisman established a Corporate Social Responsibility group to build a workable framework for implementation and verification of our compliance with the Code. We

have completed our first independently verified report on Corporate Social Responsibility, focusing on our operations in Sudan. A copy of this report is available on our website ([www.talisman-energy.com](http://www.talisman-energy.com)) or by contacting our head office in Calgary.

## HEALTH, SAFETY AND ENVIRONMENT

Health, safety and environment (HSE) performance is a critical aspect of the Company's business. Responsibility for HSE matters occurs at all levels of the organization. HSE performance is reviewed by the Board of Directors at all scheduled meetings.

Comprehensive environmental due diligence processes to identify potential environmental liabilities were conducted prior to the acquisition of the Columbia Minehead and Central Foothills Gas Gathering Systems in West Central Alberta. No material environmental liabilities were discovered during this review. These assets, together with the new Flotta Catchment Area assets, were successfully integrated into the Talisman HSE Management System in 2000.



*Talisman recognizes the value of strong relationships with stakeholders. Our priorities are: to add value for our shareholders, effectively manage our balance sheet, maintain the safety and well being of our employees and continue to be a responsible neighbour.*

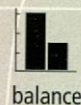
### Shareholders

Talisman's primary goal is to add value for our shareholders. We accomplish this by increasing reserves, production and ultimately cash flow and net income. Talisman's objective is to grow production per share by 10-15% annually. This growth is backed by a sustainable development inventory and driven by competitive finding, development, acquisition and operating costs.



### Debt holders

Talisman manages its capital structure in a prudent manner, balancing equity and short and long-term debt. Talisman has targets for debt to cash flow of two times and debt to debt-plus-equity of 40%.



Safety and environmental audits and programs are ongoing in Canada, the UK, Indonesia and Sudan.

In Canada, 120 inactive wells were abandoned and application made for 118 wellsite reclamation certificates. As of year end, 55% of operated earthen flare pits have been fully reclaimed, reflecting our voluntary commitment to eliminate flare pits in Western Canada. An environmental protection plan was developed for the proposed Chungo pipeline project in the northern Alberta Foothills region. A program of ongoing surveys for NORM (Naturally Occurring Radioactive Materials) was initiated in the Canadian operations.

Environmental assessments were conducted in support of field development in the UK and offshore drilling operations in Indonesia. Safety Cases for the Flotta Catchment Area assets were updated and a comprehensive Safety Case was developed in support of Blake field development. The Blenheim and Bladon fields were decommissioned with full recovery and recycle of wellheads, subsea templates, flowlines and umbilicals. This was Talisman's first offshore decommissioning operation.

Oil spill response exercises were conducted in Sudan on the Atbara River and on the Red Sea. Talisman also participated in a Medical Audit to assess and improve the standard of emergency medical care available at the Heglig field operations.

Environmental and socio-economic planning has been initiated in Colombia.

Talisman continues to support the Canadian government's Voluntary Challenge and Registry (VCR) program, reporting emissions and emission-reduction initiatives. Recent significant initiatives include:

- ◆ The Chauvin Gas Conservation Project, designed to conserve previously flared and vented solution gas, equivalent to CO<sub>2</sub> emission reductions of more than 120 kilotonnes annually
- ◆ Micro-turbine units installed in the Chauvin and Sibbald fields to convert waste solution gas into electrical power
- ◆ Evaluation of electrical cogeneration at the Edson gas plant and investment opportunities in wind power

### HUMAN RESOURCES

During 2000, we recruited 150 employees, bringing the total permanent staff complement to 1,263 at December 31.

Talisman has a competitive compensation/variable pay program and encourages stock ownership through a savings plan and periodic stock option grants. Talisman provides technical, leadership and personal development programs for all employees.





investment

### Employees

Talisman respects individual rights and provides a safe and healthy environment in which to work. We provide competitive pay, a high level of individual responsibility, challenging work and a commitment to the training and development of our staff. Talisman respects local customs and culture and provides employment opportunities and training for nationals.



commitment

### Communities

Talisman is a good neighbour in communities where we operate. We routinely consult with residents and landowners and meet or exceed environmental standards for all our operations. Talisman supports a wide variety of charities including health, environmental, educational, social and cultural causes.



responsibility

### Governments

Talisman complies with all applicable laws and regulations of the countries where we do business and has adopted the International Code of Ethics for Canadian Business.

## INFORMATION TECHNOLOGY

Talisman has identified a number of opportunities for e-business: electronic workflow, transaction intensive processes, and supply chain management. Key initiatives include:

- ◆ Accounts payable invoice workflow
- ◆ Exchange and reconciliation of joint interest billing
- ◆ Selection of a Human Resources system with a focus on "employee self service"

Talisman is participating in a study to determine the benefits of an information exchange supporting the Canadian oil and gas industry.

## CORPORATE CONTRIBUTIONS

In 2000, Talisman contributed over \$2 million to non-profit and charitable organizations in its areas of operations worldwide. The Company directs funding to health and welfare, civic causes, culture, the environment and education.

In Canada, almost 200 organizations benefited from Talisman's support during the year. The Company contributed a record

\$376,800 to the United Way. A five-year partnership was established with the Alberta Children's Hospital for \$500,000 towards the funding of a new MRI.

In the UK, funding was allocated towards local community support with the emphasis on youth, the elderly and infirm, and environmental and safety initiatives. The Company supported a number of environmental initiatives in the Moray Firth area during the year.

In Indonesia, financial support was focused on organizations and projects in the areas of health and education.

In Sudan, Talisman and its partners supported a number of major projects including the establishment of five medical clinics, provision of high capacity water wells and storage tanks, construction of four schools and a hospital at Heglig.

Allocation of the corporate contributions budget in 2000:

Canada	\$ 800,000
U.K.	\$ 194,000
Indonesia	\$ 16,000
Sudan	\$1,000,000



*Talisman's approach to corporate governance aligns closely with the guidelines established by The Toronto Stock Exchange for effective corporate governance. The Company addresses the TSE guidelines through Board composition, stated responsibilities of the Board and through various committees of the Board as outlined below.*

### COMPOSITION OF THE BOARD

Talisman is in full compliance with the TSE recommendation that "The Board of Directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any interest or business or other relationship which could, or reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding."

The Board of Directors of Talisman comprises nine directors, eight of whom, including the Chairman of the Board, qualify as unrelated directors as defined by the TSE. The only related director is James W. Buckee, President and Chief Executive Officer of the Company. The Board is continuing to evaluate its optimum size and may consider a modest increase to its size in the future in order to facilitate succession requirements.

The composition of the Board, including the independence of the Chairman and his specified role, ensures that the Board has "in place appropriate structures and procedures to ensure that the Board can function independently of management" and that "committees of the Board of Directors are composed of outside directors, the majority of whom are unrelated directors."

The Chairman of the Board is specifically charged with responsibility for leading and managing the Board in discharging its responsibilities and acts as the Board's spokesman to management.

### RESPONSIBILITIES OF THE BOARD

In accordance with the TSE guidelines, the Board of Directors has "explicitly assumed responsibility for the stewardship of the Company, and as part of the overall stewardship responsibility," the Board ensures that the Company has:

- ◆ established long-term goals and a strategic planning process
- ◆ identified the principal risks of the Company's business and implemented appropriate systems to manage those risks
- ◆ undertaken sufficient succession planning to manage and monitor management risk
- ◆ developed and implemented a communications policy
- ◆ established internal controls and management information systems which have sufficient integrity

The Board of Directors has plenary power over all matters not explicitly delegated to a committee of the Board. In particular, it is responsible for approving the Company's debt and borrowing policy and its dividend policy, and it has established authorities regarding the Company's hedging and derivative activities. In addition, prior Board approval is required of all major debt-financing agreements, the annual capital expenditure plan, and all acquisitions, dispositions or expenditures exceeding specified limits. The Board of Directors, together with the President and Chief Executive Officer, have developed mandates for the Board embodying the foregoing, and for the President and Chief Executive Officer, indicating limits to management's authority. To assist Board members in performing their responsibilities, the Company has adopted a policy whereby, with the approval of the Governance and Nominating Committee, a Board member may engage an outside advisor at the Company's expense.

The Board of Directors met seven times during 2000. All current directors, during such time as they have been directors, attended all meetings of the Board of Directors in 2000.



## COMMITTEES OF THE BOARD

The Board of Directors has established five committees: the Executive Committee, the Governance and Nominating Committee, the Audit Committee, the Management Succession and Compensation Committee and the Pension Funds Committee. The Year 2000 Committee, which was specifically created to oversee the Company's approach to Year 2000 matters until satisfactory conclusion of all Year 2000 matters affecting the Company was reached, was dissolved on February 16, 2000. In accordance with the TSE guidelines, and as a result of the composition of the Board, all committees comprise a majority of unrelated directors. The President and Chief Executive Officer is a member of the Executive Committee and the Pension Funds Committee and is the only inside and related director on these committees. The President and Chief Executive Officer was a member of

the Year 2000 Committee prior to the time it disbanded. The Governance and Nominating Committee, the Audit Committee and the Management Succession and Compensation Committee are composed exclusively of outside directors. With the exception of the Executive Committee, for which there are no regularly scheduled meetings, the committees of the Board convene in accordance with an annually developed schedule.

## DIRECTOR SHARE OWNERSHIP POLICY

In August 1998, the Board adopted a policy regarding Company share ownership by directors. The policy prescribes that directors should own at least 2,500 Talisman shares and sets out a timeframe over which that accumulation should occur. All directors currently own Talisman shares that meet or exceed the levels of ownership set by the internal policy.

### Executive Committee

**Members:** Peter N.T. Widdrington<sup>1</sup> Al L. Flood  
James W. Buckee David E. Powell

The Executive Committee is an extension of the full Board and convenes to take action when necessary and when it is not practicable to call a meeting of the full Board. Consequently, there are no regularly scheduled meetings for this committee. The Committee met once during 2000.

### Governance and Nominating Committee

**Members:** Peter N.T. Widdrington<sup>1</sup> David E. Powell  
Dale G. Parker Stella M. Thompson

#### Mandate and Activities

- ◆ develops the Company's approach to corporate governance
- ◆ establishes a long-term plan for composition of the Board
- ◆ identifies criteria and determines the process for recruiting new Board nominees and, with the assistance of a third-party search firm, reviews and recommends suitable director candidates to the full Board for approval
- ◆ implements an education and orientation program for new Board members
- ◆ reviews and determines director compensation
- ◆ assesses the effectiveness of the Board, its committees and its individual members

The Committee met eight times during 2000.

### Audit Committee

**Members:** Dale G. Parker<sup>1</sup> Robert A. Bandeen  
Paul J. Hoenmans Roland Priddle

#### Mandate and Activities

- ◆ oversees the Company's internal accounting and financial systems and its controls
- ◆ reviews the Company's interim financial statements prior to their publication
- ◆ ensures that the Company maintains effective internal control systems
- ◆ ensures adequate processes are in place for detecting risks and controlling weaknesses
- ◆ maintains direct access to the Company's internal and external auditors and meets separately with each group on a regular basis

The Committee met four times during 2000.

<sup>1</sup> Denotes Committee Chairman



## MANAGEMENT PERFORMANCE

The terms of the mandate of the Board ensure that the Company annually confirms or redetermines its long-term strategy and strategic objectives and sets its budget and development plan for the ensuing year. This process produces specific annual goals for the Company which are then further developed into specific contracts for each of the officers of the Company based upon that officer's role in the Company. Through this process, each officer individually (including the President and Chief Executive Officer), and the officers as a whole, are made directly responsible for achieving the annual goals of the Company. A significant portion of the annual compensation of each officer is based upon achieving these Company and individual goals.

## SHAREHOLDER COMMUNICATIONS

Talisman's shareholder communications policy specifically adopts the principles of timely, accurate and efficient

disclosure of information concerning the Company to all shareholders. In addition to the required annual, quarterly and timely reporting of information, the Company regularly makes presentations to industry analysts and investors. The Company also meets informally upon request with investors and analysts, provided, however, that in any such meeting, the Company strictly adheres to applicable laws relating to selective disclosure of material information. The Company's Investor Relations and Corporate Communications Department has the specific mandate of responding in a timely manner to all inquiries received from shareholders, analysts and potential investors. Shareholder inquiries or suggestions are forwarded to the appropriate person or to senior management. Shareholders may also obtain corporate information on the Company's website.

The Company intends to update its disclosure policy to reflect additional guidance regarding corporate disclosure which the Ontario Securities Commission is expected to issue in the near future.

### Management Succession and Compensation Committee

**Members:** David E. Powell<sup>1</sup> Al L. Flood  
Stella M. Thompson Peter N.T. Widdrington

#### Mandate and Activities

- ◆ reviews succession plans for key management positions within the Company
- ◆ reviews management development and staffing plans, compensation and benefit plans
- ◆ reviews annual performance contracts of the Company's Chief Executive Officer and Vice-Presidents in conjunction with the Board
- ◆ considers stock option grants to employees

The Committee met three times during 2000.

### Pension Funds Committee

**Members:** Stella M. Thompson<sup>1</sup> James W. Buckee  
Paul J. Hoenmans Roland Priddle

#### Mandate and Activities

- ◆ approves the investment objectives and policy of the Company's pension plans
- ◆ reviews investment strategy and the performance of the plans

The Committee met three times during 2000.

### Year 2000 Committee

**Members:** David E. Powell<sup>1</sup> James W. Buckee  
Stella M. Thompson

#### Mandate and Activities

- ◆ oversees the Company's approach to Year 2000 matters until satisfactory conclusion of all Year 2000 matters affecting the Company is reached
- ◆ confirms that management has established appropriate initiatives to manage Year 2000 risks and that it oversees the progress of the Company's Year 2000 initiatives

The Committee met once during 2000 and was disbanded in February 2000.

<sup>1</sup> Denotes Committee Chairman



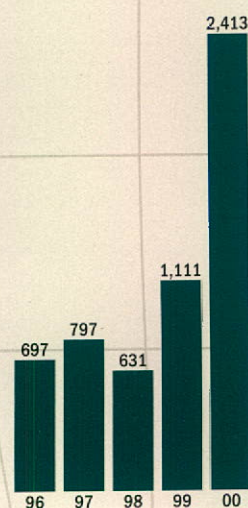
*This discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements on pages 37 to 61 of this annual report. In particular, note 15 provides segmented financial information that forms the basis for much of the following discussion and analysis. The calculation of barrels of oil equivalent (boe) is based on a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil equivalent. All comparative percentages are between the years ended December 31, 2000 and December 31, 1999, unless stated otherwise. Selected quarterly unaudited financial data, including product netbacks, may be found on pages 64 and 65 of this annual report.*

*Talisman generated record results again in 2000, establishing new highs for production, cash flow and net income while replacing 156% of production at very competitive finding, development and acquisition costs.*

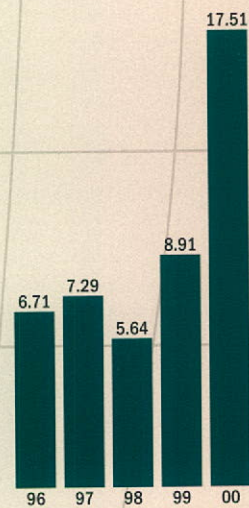
In 2000, Talisman had an outstanding year with:

- ◆ cash flow of \$2.4 billion (\$17.51/share)
- ◆ net income of \$906.3 million (\$6.41/share)
- ◆ average sales price of \$34.74/boe
- ◆ production of 409,000 boe/d
- ◆ operating costs of \$5.19/boe
- ◆ \$1.7 billion of debt at year end
- ◆ 0.7:1 debt to cash flow, 32% debt to debt-plus-equity
- ◆ exploration and development spending of \$1.2 billion
- ◆ 728 wells drilled with an 88% success rate
- ◆ proved reserve adds of 232 mmbbl with ending reserves of 1.2 billion boe
- ◆ finding, development and acquisition costs of \$5.72/boe
- ◆ recycle ratio of 3.4
- ◆ repurchase of 4.3 million shares

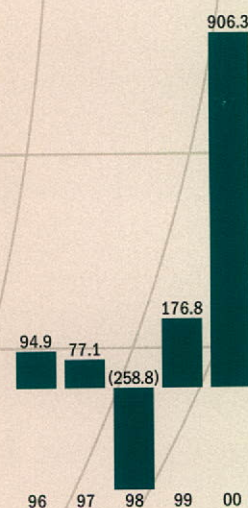
**Cash Flow**  
(millions of dollars)



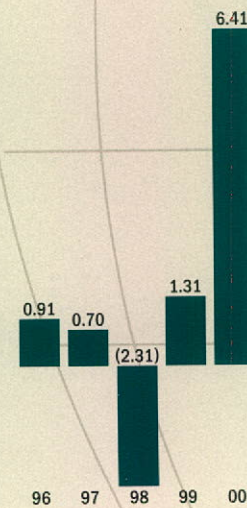
**Cash Flow Per Share**  
(dollars)



**Net Income (Loss)**  
(millions of dollars)



**Net Income (Loss) Per Share**  
(dollars)





### Record cash flow

- ◆ \$2.4 billion<sup>1</sup>; \$17.51/share<sup>1</sup> resulting from a combination of increased prices and volumes
- ◆ Gains were partially offset by increased hedging losses, royalties and income taxes
- ◆ Operating expense was higher on increased volumes but flat on a unit boe basis
- ◆ Other revenue is higher on increased pipeline revenue

### Record net income

- ◆ \$906.3 million<sup>1</sup>; \$6.41/share<sup>2</sup>
- ◆ Higher DD&A resulted from increased volumes
- ◆ Dry hole and exploration expenses were higher due to increased drilling activity
- ◆ Property sales in 2000 resulted in a lower net gain

### HIGHLIGHTS

**Oil revenues:** Crude oil and liquids prices increased 49% to average \$39.48 per barrel (bbl). Production reached 244,400 barrels per day (bbls/d), up 54%. Crude oil and liquids accounted for \$3.2 billion or 67% of the Company's \$4.8 billion in gross sales (1999 – 63%; 1998 – 59%).

**Natural gas revenues:** The Company's natural gas price averaged \$4.63 per thousand cubic feet (mcf), an increase of 73%. Natural gas production increased to 1 billion cubic feet per day, up 9% from 1999. Canada accounts for 76% of Talisman's total natural gas production.

**Royalties:** Royalties averaged \$6.29 per barrel of oil equivalent (boe) in 2000 compared to \$3.46/boe in 1999. Royalty rates averaged 18% in 2000, up from 16% in 1999.

**Operating costs:** Unit operating costs increased 1% to \$5.19/boe. Crude oil and liquids operating costs averaged \$6.50/bbl, down from \$7.02/bbl in 1999. Natural gas operating costs increased slightly to \$0.54/mcf from \$0.53/mcf in 1999.

**Reserve replacement:** Reserve replacement, including acquisitions, was 156% of 2000 production. Proved reserves increased to 1.2 billion boe. Worldwide five-year average finding, development and acquisition costs were \$6.35/boe, very competitive by industry standards.

**Exploration and development:** Exploration and development spending totaled \$1.2 billion, an increase of 18%. The number of wells drilled in 2000 increased 78% to 728.

### Net Income & Cash Flow Variance

(millions of dollars)

1999 Net income	176.8
Favorable (unfavorable)	
<b>Cash flow variance</b>	
Oil and liquids prices	1,481.3
Natural gas prices	704.7
Oil and liquids volumes	519.0
Natural gas volumes	83.8
Oil and liquids hedging	(225.0)
Natural gas hedging	(45.6)
Royalties	(556.9)
Other revenue	52.5
Operating expense	(223.3)
Interest expense	(16.2)
Current taxes	(430.7)
Other	(41.6)
Total cash flow variance	1,302.0

### Non-cash items

Depreciation, depletion and amortization expense	(406.0)
Impairment writedowns	20.8
Dry hole expense	(26.6)
Exploration expense	(20.1)
Future taxes	(60.2)
Gains on property sales	(71.6)
Other	(8.8)
Total non-cash items	(572.5)

**2000 Net income<sup>1</sup>** **906.3**

1 Net income, cash flow and cash flow per share are before preferred security charges of \$22.5 million, net of tax (\$40.1 million, before tax).

2 Net income per share is after preferred security charges.

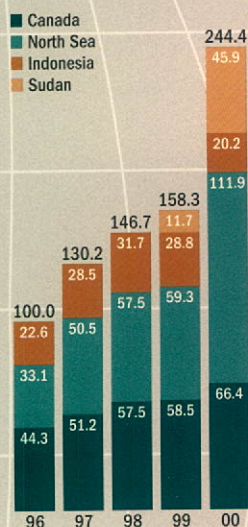
### DAILY PRODUCTION VOLUMES

Talisman increased total production by 32% in 2000 and production per share by 20%. Total liquids production increased 54% to 244,400 bbls/d and natural gas production increased 9% to 988 million cubic feet per day (mmcf/d). Growth came from:

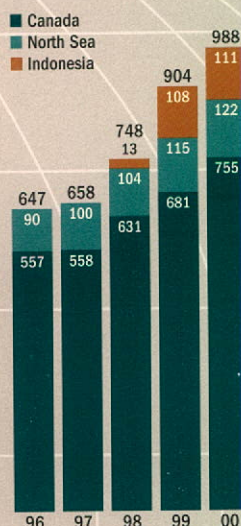
- ◆ the Rigel acquisition in September 1999 and follow-up exploration and development work
- ◆ property acquisitions and drilling success in the North Sea
- ◆ start up of the Greater Nile Oil Project in August 1999
- ◆ drilling 641 successful wells



**Oil & Liquids Production**  
(mbbls/d)



**Natural Gas Production**  
(mmcf/d)



**Canada:** Natural gas production in Canada averaged 755 mmcf/d, up 74 mmcf/d or 11% from 1999. These gains are the result of continued drilling success in the Alberta Foothills, Greater Arch and Whitecourt and added volumes from the Rigel acquisition. Production was affected by weather delays and extended plant maintenance. Crude oil and liquids production averaged 66,400 bbls/d, an increase of 7,900 bbls/d or 13% over 1999. Production increased in Chauvin, Carlyle and Greater Arch largely due to the expanded drilling program.

**North Sea:** North Sea liquids production averaged 111,900 bbls/d, an increase of 52,600 bbls/d or 89% over 1999. Significant growth came from acquisitions in the Central North Sea of the Piper, Claymore, Scapa, Saltire, Chanter and Iona producing fields and the Flotta Oil Terminal (the Fourth Round Assets) and Tartan, Highlander and Petronella fields, together renamed the Flotta Catchment Area. These properties contributed 49,000 bbls/d of production in 2000. Clyde area production increased 2,600 bbls/d to 16,000 bbls/d with a full year of operations at Orion and the start of production from the North Leven well. Ross liquids production increased to 13,300 bbls/d, up from 7,800 bbls/d in 1999, but dropped in the fourth quarter

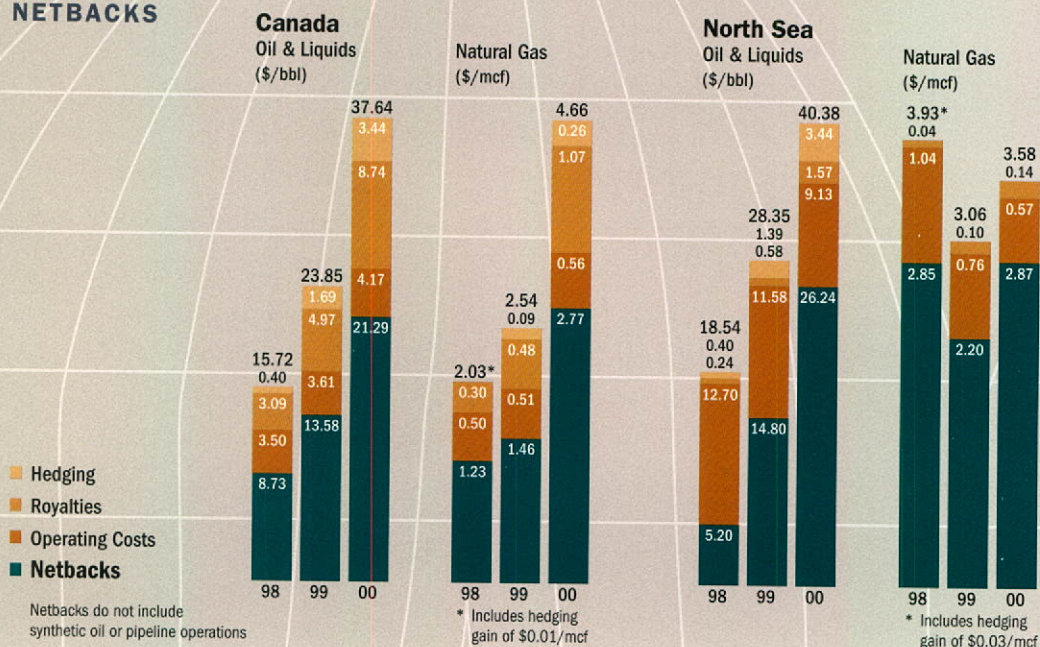
due to mechanical difficulties. Beatrice was shut down starting in the third quarter for pipeline repairs, which are expected to be completed by the second quarter of 2001. Prior to the shutdown, Beatrice was producing 4,500 bbls/d. Production from the Blenheim and Bladon fields ceased in April 2000. North Sea natural gas production increased 6% to 122 mmcf/d. Production at Brae accounted for most of the increase with a new agreement providing access to additional pipeline capacity.

**Indonesia:** Indonesian natural gas production averaged 111 mmcf/d, little changed from 1999, with the Corridor Gas Project performing as expected. Liquids production decreased to 20,200 bbls/d from 28,800 bbls/d in 1999. The majority of the decrease is in the Ogan Komering (OK) Block and is primarily due to the decision by Perusahaan Pertambangan Minyak Dan Gas Bumi Negara (Pertamina), the Indonesian national oil company, to exercise its right to convert previously reported royalty interest to a 50% equity interest. The conversion by Pertamina to an equity interest was effective January 1, 2000.

**Sudan:** Production from the Greater Nile Oil Project commenced on August 30, 1999. Oil production continues to exceed expectations, averaging 45,900 bbls/d in 2000.



## NETBACKS



## PRICES

	2000	1999	1998
Oil and liquids (\$/bbl)			
Canada	37.64	23.85	15.72
North Sea	40.38	28.35	18.54
Indonesia	42.50	26.20	18.01
Sudan	38.52	31.24	—
	39.48	26.55	17.35
Natural gas (\$/mcf)			
Canada	4.66	2.54	2.02
North Sea	3.58	3.06	3.90
Indonesia	5.64	3.18	1.65
	4.63	2.68	2.26
Company (\$/boe)	34.74	21.42	15.61

Prices are before hedging activities and do not include synthetic oil.

World crude oil prices increased significantly in 2000 with lingering low inventories at a time of increasing global demand. The Company's fourth quarter crude oil price was lower than key reference prices due to a temporary widening of differentials (both domestic and international), higher freight costs, as well as the timing of cargo loadings and sales.

**Canada:** West Texas Intermediate (WTI), a widely quoted benchmark price in North America, averaged US\$30.20/bbl for 2000, its highest annual average since 1983 and significantly higher than US\$19.24/bbl last year. Talisman's Canadian crude oil and liquids price increased 58% to \$37.64/bbl in 2000. Talisman's natural gas prices averaged

\$4.66/mcf, an increase of 83% over 1999, due to increased demand and tight supplies.

**North Sea:** Brent, the North Sea crude oil reference price, averaged US\$28.39/bbl in 2000, up from US\$17.87/bbl. Talisman's crude oil sales price increased 42% to \$40.38/bbl and was impacted in 2000 by the addition of production from the Flotta Catchment Area that trades at a discount in comparison with Talisman's other North Sea production. Talisman's average natural gas price increased 17% to \$3.58/mcf, in line with increased spot prices.

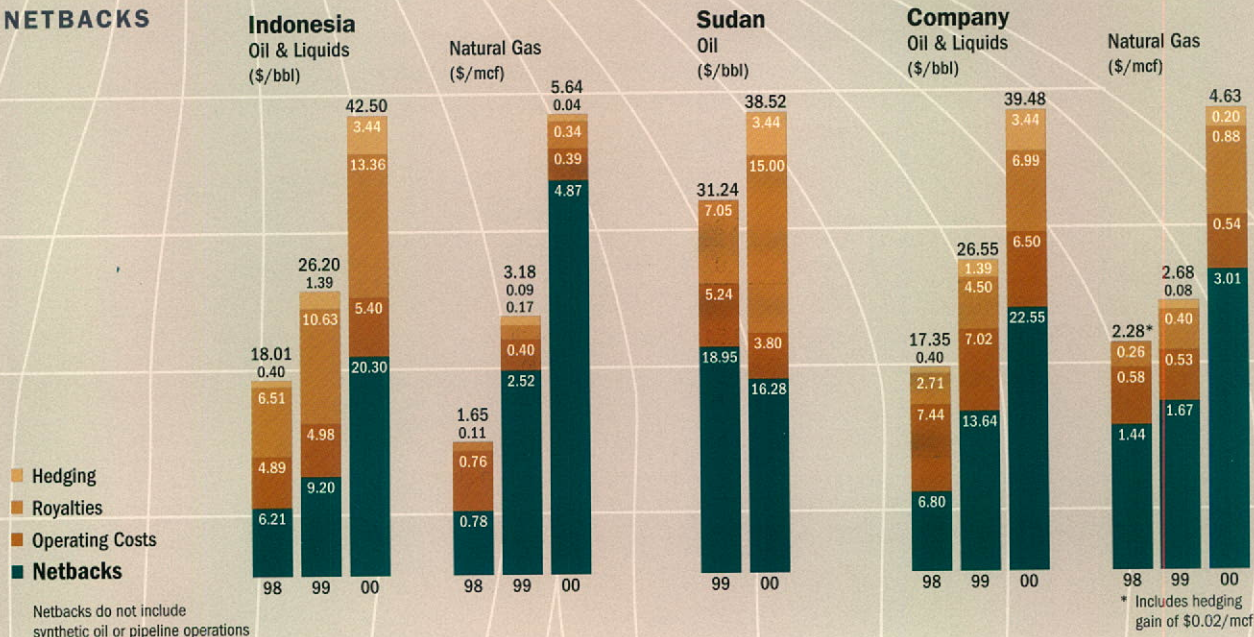
**Indonesia:** Minas, a key Asian crude oil reference price, averaged US\$28.53/bbl, up from US\$17.60/bbl in 1999. Talisman's Indonesian average crude oil price increased 62% to \$42.50/bbl. Natural gas prices increased 77% to \$5.64/mcf (net of pipeline tariffs of \$0.92/mcf). Corridor's natural gas production is exchanged for Duri crude oil on an energy equivalent basis and is sold offshore with payment in US dollars.

**Sudan:** Talisman's average Sudan sales price for its Nile Blend was \$38.52 in 2000, an increase of 23% over the last four months of 1999. The Nile Blend is priced off Minas and during the early part of the year traded at a premium to Minas. However, the Sudan price in the fourth quarter was adversely affected by oil liftings at year end when prices were low in addition to the temporary widening of differentials and higher freight costs.

The Company's average sales prices are before hedging losses of \$3.44/bbl (1999 \$1.39/bbl loss, 1998 \$0.40/bbl loss) and \$0.20/mcf (1999 \$0.08/mcf loss, 1998 \$0.02/mcf gain).



## NETBACKS



## ROYALTIES

Average royalty rates (%)	2000	1999	1998
Oil and liquids			
Canada	23	21	20
North Sea	4	2	1
Indonesia	31	41	36
Sudan	39	23	—
	18	17	16
Natural gas			
Canada	23	19	15
North Sea	4	3	1
Indonesia	6	5	7
	19	15	12
Company	18	16	14

Royalties rates do not include synthetic oil or pipeline operations.

**Canada:** Canadian royalties increased with higher commodity prices. Royalty rates vary depending on the type of oil or natural gas produced, applicability of freehold royalties, overriding royalties or royalty holidays and the location of production.

**North Sea:** North Sea crude oil and liquids royalties increased to 4% with the recent acquisitions of Piper, Claymore and Tartan which are subject to royalties. Increases in production from MacCulloch, Orion, and Ross, which are not subject to

royalties, partially offset the impact of the acquisitions. Royalties are only payable on fields developed prior to 1983.

**Indonesia:** Natural gas royalties averaged 6% during 2000. Crude oil and liquids royalty rates decreased due to the Pertamina funding election in the OK Block. Indonesian royalties include Pertamina's share of profit oil from all producing areas and oil committed to the domestic market at reduced prices pursuant to contract terms. The timing and extent of royalty rate increases depend on future cost recovery pools, production and prices. Refer to note 1(g) of the Consolidated Financial Statements for additional information on Indonesian royalties.

**Sudan:** The Sudan royalty includes the government's share of profit oil and excess cost oil after recognizing that portion related to income tax. The increase in royalty is the result of both higher production and prices. Crude oil production is allocated to upstream capital and operating cost recovery at a rate of either 40% or 45%, with the remaining production allocated to profit oil. The government's incremental share of profit oil ranges from 60% to 80%, depending on production levels. Crude oil production allocated to cost recovery, which is in excess of the amount required to recover capital and operating costs, reverts to the government and is referred to as excess cost oil. Once upstream capital cost recovery occurs, all future cost oil production after recovery of operating costs reverts to the government.



## OPERATING COSTS

	2000	1999	1998
Oil and liquids (\$/bbl)			
Canada	4.17	3.61	3.50
North Sea	9.13	11.58	12.70
Indonesia	5.40	4.98	4.89
Sudan	3.80	5.24	—
	6.50	7.02	7.44
Natural gas (\$/mcf)			
Canada	0.56	0.51	0.50
North Sea	0.57	0.76	1.04
Indonesia	0.39	0.40	0.76
	0.54	0.53	0.58
Company (\$/boe)	5.19	5.14	5.61

Operating costs do not include synthetic oil or pipeline operations.

Talisman's unit operating costs increased 1% to \$5.19/boe due to an increase in North Sea oil production and higher unit operating costs in Canada.

Canada: Canadian crude oil and liquids unit operating costs increased 16% while natural gas operating costs increased 10%. These increases were the result of certain Rigel properties acquired in 1999, increases in processing costs and fuel charges and a generally higher cost environment.

North Sea: North Sea crude oil and liquids unit operating costs decreased 21% due to the addition of lower cost production from the Flotta Catchment Area, higher production levels, ongoing cost reduction programs and the strengthening of the Canadian dollar relative to the UK pound sterling. Significant gains were achieved in reducing unit operating costs at both Ross and Clyde, which decreased 10% and 16%, respectively. Natural gas unit operating costs decreased 25% as a result of both higher production and a successful cost reduction program at Brae.

Indonesia: Unit operating costs for 2000 averaged \$3.93/boe, down from \$3.99/boe in 1999. Corridor's operating costs decreased slightly to \$0.39/mcf from \$0.40/mcf in 1999. Unit operating costs for crude oil and liquids increased to \$5.40/bbl due to a lower percentage of low cost production from OK Block.

Sudan: Unit operating costs decreased due to higher production levels in 2000 and initial startup expenditures in 1999. A large portion of the pipeline's operating costs are fixed and unit operating costs decrease with higher production. Talisman holds a 25% interest in the Sudan pipeline and marine terminal pursuant to an agreement that terminates on the later of September 1, 2014 and the

achievement of a 16.2% real internal rate of return, after which the interest reverts to the government. After the pipeline reverts to the government, Talisman will be required to pay transportation tariffs.

## DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSE

DD&A (\$/boe)	2000	1999	1998
Canada	6.79	5.87	5.16
North Sea	10.59	9.88	9.27
Indonesia	5.87	4.20	4.43
Sudan	4.72	5.42	—
Company	7.70	6.62	6.21
DD&A (millions of dollars)			
Canada	477.9	368.7	306.7
North Sea	512.3	282.7	253.0
Indonesia	83.0	71.8	54.9
Sudan	79.3	23.2	—
Other	0.1	0.2	0.2
Company	1,152.6	746.6	614.8

Depreciation, depletion and amortization (DD&A) expense was \$1,152.6 million, up 54% from the 1999 expense of \$746.6 million (1998 — \$614.8 million). DD&A rates per boe increased in Canada due primarily to the Rigel acquisition. In the North Sea, the rate is up due to the inclusion of a full year's production from Ross and Orion and the cessation of production from Blenheim and Bladon. Partially offsetting the increase in the North Sea rate is production from the Flotta Catchment Area which has lower DD&A rates. Indonesian DD&A increased 40% due to the reduced working interest in the OK Block. Sudan rates decreased 13% due to higher production, which reduced the per unit expense of the pipeline which is being depreciated at a fixed annual rate.

## DRY HOLE EXPENSE

(millions of dollars)	2000	1999	1998
Canada	29.1	12.7	22.5
North Sea	14.9	26.4	48.2
Indonesia	17.2	1.3	3.9
Sudan	3.3	2.0	—
Other	12.8	8.2	16.6
	77.3	50.6	91.2

Other includes Algeria (2000 — \$12.7 million; 1999 — \$3.3 million; 1998 — \$16.5 million), Trinidad (1999 — \$4.9 million) and miscellaneous (2000 — \$0.1 million; 1998 — \$0.1 million).

Dry hole expense increased 53% in 2000 to \$77.3 million as a result of increased drilling activity. Under the successful



efforts method used by Talisman to account for its oil and gas exploration and development, the Company charges to dry hole expense the costs of drilling exploration wells that are determined to be unsuccessful. A significant portion of the 2000 expense relates to an exploration well at Marcel, adjacent to Beatrice in the North Sea, while the Molah 1 well in the Madura offshore block accounted for most of the Indonesian expense.

## EXPLORATION EXPENSE

(millions of dollars)	2000	1999	1998
Canada	53.9	39.8	39.9
North Sea	13.1	8.5	37.5
Indonesia	6.4	8.1	10.0
Sudan	8.2	11.6	2.5
Other	18.0	11.5	12.5
	99.6	79.5	102.4

Exploration expense consists of geological and geographical expenses, seismic, land lease rentals and indirect exploration expense. Exploration expense increased 25% to \$99.6 million. During 1999, the exploration budget was curtailed due to low oil prices. The increases in Canada and the North Sea reflect larger exploration programs due, in part, to the Rigel and Flotta Catchment Area acquisitions.

## CORPORATE EXPENSES

### General and Administrative Expense

General and administrative (G&A) expense on a per unit basis was \$0.63/boe, compared with \$0.62/boe in 1999 (1998 — \$0.59/boe). Total G&A expense increased 35% to \$94.9 million with higher staffing levels reflecting expanding investment and operations.

### Interest Costs

As debt was repaid throughout the year, interest on long-term debt, including capitalized interest, decreased to \$151.6 million (1999 — \$161.0 million; 1998 — \$142.0 million). A total of \$15.7 million of interest was capitalized in 2000 and is associated with the Blake oil field development in the North Sea. In 1999, interest of \$41.4 million was capitalized relating to the Ross field in the North Sea and the Greater Nile Oil Project in Sudan, both of which commenced operations in 1999.

### Preferred Security Charges

Preferred securities charges, net of taxes, were \$22.5 million (1999 — \$13.3 million) and have been charged directly to retained earnings in accordance with accounting principles generally accepted in Canada. Preferred security charges,

before tax, totaled \$40.1 million (1999 — \$23.7 million). For tax purposes, the preferred securities charges are treated as interest expense and correspondingly as taxable interest income for the security holder.

### Other revenue

Other revenue increased 114% to \$98.8 million as pipeline and custom treating revenues rose to \$82.1 million (1999 — \$34.8; 1998 — \$37.6) due to revenue from the Flotta Terminal acquired as part of the Flotta Catchment Area. Investment income (\$12.8 million) and marketing income (\$3.9 million) were up slightly from 1999.

### Other expenses (income)

Other expenses (income) for 2000 includes gains on property disposition of \$12.2 million (1999 — \$83.8 million; 1998 — \$89.3 million) and miscellaneous interest charges of \$11.0 million (1999 — \$1.6 million; 1998 — \$3.0 million). Other expenses (income) in 1999 and 1998 included impairment writedowns of \$20.8 million and \$245.7 million, respectively.

## Income Taxes

Current income tax expense increased to \$333.5 million in 2000. The effective tax rate for 2000, after deducting Production Revenue Tax (PRT), was 37%. The increase in current taxes was primarily in the UK. The effective tax rate is lower in 2000 compared to 1999 due to the elimination of non-deductible DD&A expense as a result of a change in accounting policy discussed below.

The UK Government levies PRT on North Sea fields which received development approval before April 1993, based on gross profit after deducting allowable expenditures, a cost uplift, a portion of losses from certain other fields and abandonment costs. PRT is deductible for purposes of calculating corporate income tax. High crude oil prices in 2000 and the acquisitions completed at the end of 1999 and during the first quarter of 2000 resulted in a significant increase in PRT expense.

### Effective income tax rate

(millions of dollars)	2000	1999	1998
Income (loss) before tax	1,585.9	365.5	(312.3)
Less PRT	149.6	30.7	19.8
	1,436.3	334.8	(332.1)
Income tax expense			
Current	333.5	48.8	14.6
Future (recovery)	196.5	109.2	(87.9)
	530.0	158.0	(73.3)
Effective income tax rate (%)	37	47	(22)



Effective January 1, 2000, Talisman implemented the new Canadian income tax accounting recommendations and accordingly restated the January 1, 2000 future taxes and retained earnings. Implementation of the new income tax standards is expected to result in more consistent annual effective income tax rates. The effect of the new accounting policy is described in note 13 of the Consolidated Financial Statements.

### Drilling activity

During 2000, Talisman participated in a total of 728 gross wells, including 378 oil wells and 263 gas wells. This compares to 408 gross wells in 1999, of which 177 were oil wells and 186 were gas wells.

### Reserve replacement

During 2000, Talisman replaced 156% of production with reserve replacement reaching 232 mmboe. In 1999, 283% of production was replaced for a total of 317 mmboe. Over the last five years, the Company has replaced 233% of production, adding 1.2 billion boe of proved reserves.

### Finding and development costs

Finding, development and acquisition (FD&A) costs are an important measure of efficiency for an oil and gas company. Talisman's five year average FD&A costs were \$7.17/boe in Canada and \$5.78/boe internationally. The worldwide five year average was \$6.35/boe.

### CAPITAL SPENDING

The Company increased its ownership of the Flotta Catchment Area in the North Sea by acquiring Texaco Britain Limited's working interest in these assets. Talisman's working interest in the following assets that comprise the Flotta Catchment Area are: Piper, Saltire, Chanter, Iona and Scapa fields – 60.4%; Claymore field – 47.4%; Tartan, Highlander and Petronella fields – 100%; and the Flotta Terminal and related pipelines – 60.4%. The cost of these acquisitions in 2000 was approximately \$250 million. Combined with the 1999 Fourth Round Asset acquisition costs of approximately \$400 million, this works out to an average of \$5.09/boe of added proved reserves.

During 2000, Talisman continued to focus on low risk high working interest development projects in the North Sea. The Company tied in the North Leven well and commenced the development of the Beaulieu and Halley oil fields in 2000. The Blake oil field development is expected to deliver production in August 2001. In total, North Sea exploration and development spending was \$302.8 million with \$257.2 million spent on development projects and the remaining \$45.6 million focused on exploration opportunities.

In Canada, Talisman continued to focus on natural gas exploration and development supplemented by low risk oil exploitation. Exploration and development spending was \$686.4 million with \$434.0 spent on development projects and \$252.4 million on exploration with approximately three-quarters weighted towards natural gas projects. Talisman spent \$371.9 million on drilling. The Company purchased over 500,000 net acres of undeveloped land at a cost of \$67.8 million (\$135/acre). This compares to 284,000 net acres in 1999 at a cost of \$20 million (\$71/acre). Talisman acquired two pipeline systems in Canada at a purchase price of approximately \$145 million. The two systems connect relatively under-exploited areas of the Western Canada Basin with a number of major sour gas plants, including the Talisman operated Edson Gas Plant. Ownership in the systems will provide Talisman with access to infrastructure, providing transportation and processing options for gas volumes from the Alberta Foothills and other deep gas play systems.

Indonesian capital spending totaled \$68.8 million, up from \$54.2 million in 1999, of which \$30.1 million was exploration and \$38.7 million development. A majority of the 2000 spending was focused on drilling.

Sudan capital spending totaled \$69.9 million with \$33.1 million spent on exploration and \$36.8 million on development drilling and facilities, of which \$13.4 million related to the pipeline.

Talisman spent a total of \$51.1 million in other exploration areas. In 2000, the Company spent \$34.2 million and \$6.7 million in Algeria and Trinidad, respectively. Within Algeria, development continued on the Ourhoud field and development approval was obtained for the MLN field. Production from both fields is planned for early 2003. An appraisal of the Angostura discovery in Trinidad is planned for 2001.

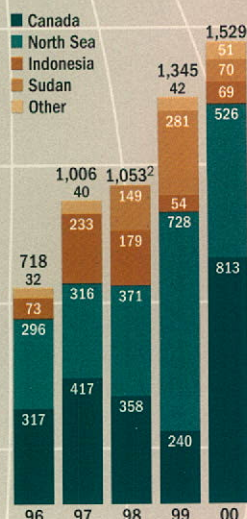
### LIQUIDITY AND CAPITAL RESOURCES

Talisman's long-term debt at year end was \$1,733.3 million, down \$461.5 million, resulting from the Company's record cash flow. For additional information regarding the Company's liquidity and capital resources refer to note 6 of the Consolidated Financial Statements.

Talisman's long-term debt maturities are spread over a number of years. The Company maintains a shelf prospectus under which it may issue \$500.0 million of medium term notes in the Canadian public debt markets up to April 2002. In March 2000, the Company issued \$175.0 million of medium term notes with an interest rate of 8.06%. The Company has access to \$1.1 billion of committed revolving bank credit which, as of December 31, 2000 was undrawn.



### Net Capital Expenditures<sup>1</sup> (\$ millions)



1 Excludes corporate acquisitions  
2 Includes \$4 million net disposition

### General & Administrative Expense (\$/boe)



Talisman maintains targets for long-term debt of less than 2:1 debt to cash flow and 40% debt to debt-plus-equity. At the end of 2000, Talisman met both target ratios at 0.7:1 and 32%, respectively. Since any repurchase of common shares is expected to be financed with the surplus of cash flow over net capital expenditures, Talisman's debt to debt-plus-equity ratio is expected to remain below 40% at the end of 2001. The Company's debt to cash flow ratio is expected to remain below 1:1.

Based on a year end share price of \$55.65 per common share, the Company's market capitalization, including preferred securities, increased \$2.5 billion to \$8.0 billion (\$9.7 billion including long-term debt). The Company has not declared a dividend on its common shares since 1991. The dividend policy is reviewed annually by the Board of Directors.

Pursuant to the normal course issuer bid filed with The Toronto Stock Exchange in February 2000, the Company repurchased 4,278,300 common shares for \$210.2 million in 2000 (\$49.13/share), representing 3% of the common shares outstanding at the time the issuer bid was filed. In addition, 730,800 common shares for \$40.8 million (\$55.77/share) were repurchased subsequent to year end. The normal course issuer bid was renewed in February 2001.

Talisman's corporate credit and senior unsecured long-term debt credit ratings remain unchanged with Dominion Bond Rating Service ("DBRS"), Canadian Bond Rating Service ("CBRS"), Moody's Investor Service, Inc. ("Moody's") and Standard & Poor's ("S&P"). The combination of the operations

in Canada of CBRS and S&P will result in the withdrawal of CBRS ratings in 2001. Due to the subordinated nature of the preferred securities, they have a lower rating. All of Talisman's long-term credit ratings remain investment grade. Talisman's commercial paper ratings with CBRS and Moody's remain unchanged. Talisman initiated the discontinuance of its commercial paper rating with DBRS in 2000.

### Financial leverage & coverage ratios<sup>1</sup>

	2000	1999	1998
Long-term debt <sup>2</sup> to cash flow <sup>3</sup> (times)	0.7	2.0	3.3
Interest coverage — cash flow <sup>3,4</sup> (times)	19.0	8.0	5.2
EBITDAX <sup>5</sup> (millions of dollars)	2,901.7	1,351.9	813.0
Interest coverage — EBITDAX <sup>6</sup> (times)	19.1	8.4	5.7
Long-term debt to debt-plus-equity <sup>2</sup> (%)	32	38	49

1 Preferred securities are classified as equity and the related charges have been excluded from interest expense.

2 Based on balances at December 31.

3 Components of cash flow are set out in note 14 to the Consolidated Financial Statements.

4 Cash flow plus current income taxes and interest expense, divided by the sum of interest expense and capitalized interest.

5 Earnings before interest, income taxes, depreciation, depletion and amortization, impairment writedowns, dry hole and exploration expense.

6 Earnings before interest, income taxes, depreciation, depletion and amortization, impairment writedowns, dry hole and exploration expense; divided by the sum of interest expense and capitalized interest.



## FINANCIAL INSTRUMENTS

The Company manages its exposure to adverse fluctuations in foreign exchange rates, interest rates and commodity prices in part through the use of financial instruments. Financial hedge contracts resulted in a net decrease to recorded sales of \$337.2 million (1999 – \$39.1 million; 1998 – \$15.3 million). Approximately 90% of the hedging loss related to commodity derivative contracts with the remainder related to foreign exchange derivative contracts. The accounting policy with respect to financial instruments is set out in note 1(k) of the Consolidated Financial Statements. Financial instruments outstanding at December 31, 2000, including their respective fair values, are detailed in note 9 of the Consolidated Financial Statements.

### Financial commodity contracts

The Company has hedged the price of approximately 5% of anticipated production for 2001 through the use of financial instruments. The crude oil hedges and a portion of the natural gas hedges consist of costless collars which allow the Company to participate in commodity prices up to a ceiling price while mitigating downward price risk.

### Foreign exchange contracts

The Company entered into foreign exchange contracts to fix the exchange rate on a portion of future revenues to be received in 2001. The notional contract amount outstanding for 2001 is US\$211.0 million. As the Company has designated these foreign exchange contracts as hedges, payments or receipts on these contracts are recognized in income concurrently with the hedged transaction. The loss on foreign exchange contracts in 2000 was \$28.6 million (1999 – \$60.0 million; 1998 – \$32.5 million).

The Company has established a system of internal controls to minimize risks associated with its derivatives program and credit risk associated with derivatives counterparties.

## CHANGES IN ACCOUNTING PRINCIPLES

In addition to the adoption of the new income tax standard discussed above, commencing January 1, 2001, the Company implemented the new Canadian accounting recommendations for the computation and disclosure of earnings per share. Under the new standard, the treasury method for calculating diluted earnings per share must be used which is consistent with the methodology used for US GAAP. Refer to note 8 of the Consolidated Financial Statements for additional information regarding the impact of this accounting change.

## RISKS AND UNCERTAINTIES

Talisman is exposed to operational risks inherent in exploring for, developing and producing crude oil and natural gas. A comprehensive insurance program is maintained to mitigate risks and to protect against significant losses, while maintaining levels of risk within the Company which management believes to be acceptable. Talisman believes its liability, property and business interruption insurance is adequate and consistent with common industry practice. Talisman also maintains comprehensive programs and contingency plans necessary to control health, safety and environmental risks across its operations that comply with existing legislative and regulatory requirements. Regular audits of operations assess compliance with applicable regulations and standards. Compliance with health, safety and environmental standards are reviewed at each Board of Directors' meeting. Long-term abandonment and restoration provisions have been recorded in accordance with generally accepted accounting principles.

The Company's operations may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments which are not within the control of Talisman including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, international monetary fluctuations and currency controls. Indonesia, Algeria, Sudan and Colombia have been subject to recent economic or political instability and social unrest, military or rebel hostilities. There is civil unrest in Sudan, which apart from short periods of calm, has continued inconclusively since 1956. Sabotage on the Sudanese pipeline in January 2000 resulted in a minor production interruption that was limited to a few days. The oilfields and pipeline may be future targets of guerrilla attacks, although security measures are in place to reduce the risk.

The US has imposed economic sanctions against Sudan which, among other things, prohibit the facilitation by a US person of the export of goods, technology or services to or from Sudan and the performance by any US person of any contract, including a financing contract, in support of any project in Sudan. On February 16, 2000, the United States Department of the Treasury announced that Sudapet, the national oil company of Sudan, and the Greater Nile Petroleum Operating Company ("GNPOC") are specifically subject to sanctions. GNPOC, the jointly owned company, operates the



Greater Nile Oil Project. Talisman (Greater Nile) B.V. ("TGNBV"), a subsidiary of Talisman, holds a 25% interest in GNPOC and the Greater Nile Oil Project. Sudapet holds a 5% working interest in GNPOC and the Greater Nile Oil Project. Neither TGNBV nor the Company is a "US person" and are therefore not bound by the sanctions. The Canadian government has not imposed unilateral economic sanctions on Sudan. Talisman has also implemented comprehensive procedures to identify and avoid potential activities or transactions that may result in a contravention of the Sudanese sanctions by any US person.

## OUTLOOK

After a year of record production, cash flow and earnings, the Company is positioned to continue its strong performance in 2001. Total production is expected to increase between 5% and 10% next year, which is based on existing projects and does not reflect any significant acquisitions, dispositions or exploration discoveries.

## Canada

The Company's Canadian strategy will maintain natural gas as its focus supplemented by low risk oil projects. Three-quarters of the \$710 million planned to be spent in Canada will be for natural gas exploration and development. A significant portion of the budget will be spent in the Alberta Foothills (\$135 million), Greater Arch (\$125 million) and Whitecourt (\$50 million). The Company plans to participate in over 650 wells in Canada in 2001. Natural gas production is expected to increase approximately 5% while liquids production is expected to remain constant. Higher power costs in 2001 are expected to put upward pressure on Canadian operating costs by increasing costs by less than 10%.

## North Sea

Capital spending in the North Sea will continue to be focused on low risk development projects. A number of projects are close to completion with the Blake, Halley, Beaulieu and Hannay developments expected to come on stream in 2001. Total capital spending in the North Sea is expected to be over \$565 million in 2001. Ross production will be temporarily suspended in mid-year in order to allow the necessary modifications to the FPSO for Blake production. Beatrice production is expected to resume in mid-year once repairs to the pipeline are complete. Crude oil and liquids production in 2001 is expected to increase between 18% and 23% to approximately 132,000 bbls/d to 138,000 bbls/d, while gas production is expected to decrease slightly to approximately 110 mmcf/d as a result

of non-core asset sales in late 2000. Unit operating costs are expected to continue to decline in 2001.

## Indonesia

Indonesia will account for \$115 million of the planned capital expenditures. Talisman announced the signing of a 19 year sales agreement for additional natural gas deliveries from Corridor to the Duri Steamflood commencing in 2003. The Company also recently announced a 20 year agreement to sell natural gas to Singapore Power commencing in mid-2003. A significant portion of the 2001 capital budget will be for the construction of a 300 mmcf/d processing plant at Corridor to support the additional sales. Natural gas production is expected to be approximately 100 mmcf/d.

The high commodity prices received for Corridor's natural gas have generated cash flows that have accelerated the repayment of certain costs incurred by the Company on behalf of Pertamina. The Company has been recording an increased share of production as repayment of these costs. Payout on this carried interest has now been achieved and effective January 1, 2001, the Company's reported share of Corridor production will decrease from 40% to 36% (the Company's working interest share of Corridor).

## Sudan

In Sudan, approximately two-thirds of the \$120 million capital budget is allocated to development projects, including pipeline and central processing facility upgrades to increase capacity from the current 190,000 bbls/d to 230,000 bbls/d. A total of 17 exploration and 25 development wells are planned. Production is expected to increase between 10% and 20%.

## Rest of World

The planned program in other parts of the world includes development of the Ourhoud and MLN fields in Algeria for approximately \$70 million, with first production expected in early 2003. Talisman also plans to spend \$18 million in Trinidad, drilling up to four wells, including the continued appraisal of the Angostura oil and gas discovery. Talisman is also exploring in the US and Colombia.

## Income tax expense

High commodity prices have accelerated the utilization of Talisman's income tax pools. The Company has been subject to current income tax in both the North Sea and Indonesia for some time. The Company became subject to current income



tax in Sudan with the commencement of commercial production in 1999. During the fourth quarter of 2000, the Corridor project in Indonesia became currently taxable. The Company now also expects to accrue current income taxes during 2001 for its Canadian operations. The amount of taxes to be paid and the timing of the utilization of the income tax pools is subject to some uncertainty related to commodity prices and the timing and extent of capital expenditures.

### Commodity prices

North American natural gas pricing fundamentals are expected to remain strong in 2001 and the Company is well positioned to benefit from continued high prices. Approximately 19% of Talisman's 2001 Canadian natural gas production is committed under both fixed price physical contracts and derivative instruments with an average price of \$2.79/mcf. The Company also sold forward 20,000 bbls/d of crude oil under contract terms that allow Talisman, on average, to participate in NYMEX oil prices up to US\$29.80/bbl and provide for a US\$3.00/bbl premium should the index average below US\$21.50/bbl. The commodity price derivatives and physical sales contracts outstanding at December 31, 2000 are detailed in notes 9 and 10 of the Consolidated Financial Statements.

### Sensitivities

Talisman's financial performance is impacted by factors such as changes in volumes, commodity prices and exchange rates. The estimated impact of these factors on 2001 financial performance is summarized in the following table and is based on WTI oil price of US\$24.00/bbl and NYMEX gas price of US\$5.00/mcf.

### Approximate impact in 2001

(millions of dollars)	Net Income	Cash flow <sup>1</sup>
<b>Volume changes</b>		
Oil – 1,000 bbls/d	3.1	5.2
Natural gas – 10 mmcf/d	2.5	6.4
<b>Price changes<sup>2</sup></b>		
Oil – US\$1.00/bbl	64.6	69.5
Natural gas (Canada) <sup>3</sup>		
C\$1.00/mcf	93.0	93.0
<b>Exchange rate changes</b>		
C\$ decrease by US\$0.01 <sup>2</sup>	22.4	27.2
£ increase by C\$0.035	(1.8)	(0.1)

1 Components of cash flow are set out in note 14 to the Consolidated Financial Statements.

2 The impact of hedging contracts in place at December 31, 2000 has been included.

3 Price sensitivity on natural gas relates to Canadian natural gas only. The Company's exposure to changes in North Sea natural gas prices is not material. Indonesia natural gas price is based on the price of crude oil and accordingly has been included in the price sensitivity for oil.



The Board of Directors is responsible for the Consolidated Financial Statements but has delegated responsibility for their preparation to management.

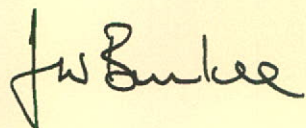
Management has prepared the Consolidated Financial Statements in accordance with accounting principles generally accepted in Canada (with a reconciliation to accounting principles generally accepted in the United States). If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and ensured that it is consistent with information in the Consolidated Financial Statements.

Talisman maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

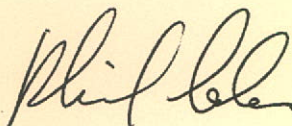
The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee is appointed by the Board and is composed of Directors who are not employees of the Company. The Audit Committee meets regularly with management, and with the internal and external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

Ernst & Young LLP, the external auditors, have audited the Consolidated Financial Statements in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee.



James W. Buckee  
President and Chief Executive Officer



Philip D. Dolan  
Controller

February 9, 2001



**To the Shareholders of Talisman Energy Inc.**

We have audited the Consolidated Balance Sheets of Talisman Energy Inc. as at December 31, 2000 and 1999 and the Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the years in the three year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000 in accordance with accounting principles generally accepted in Canada.

As discussed in notes 8 and 13 to these Consolidated Financial Statements, in 2000 the Company changed its methods for the computation and disclosure of earnings per share and income taxes.

Calgary, Canada  
February 9, 2001

*Ernst & Young LLP*

Chartered Accountants



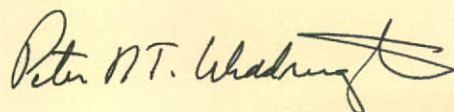
# CONSOLIDATED BALANCE SHEETS

December 31

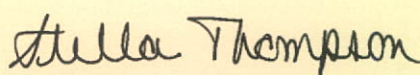
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(millions of Canadian dollars)	2000	1999
<b>Assets</b>		
Current		
Cash (note 14)	76.0	54.0
Accounts receivable	842.7	569.4
Inventories (note 3)	103.3	84.4
Prepaid expenses	20.0	22.3
	1,042.0	730.1
Accrued employee pension benefit asset (note 4)	52.3	50.0
Other assets	80.8	45.0
Property, plant and equipment (notes 5 and 6)	7,500.6	6,983.0
	7,633.7	7,078.0
<b>Total assets</b>	<b>8,675.7</b>	<b>7,808.1</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	1,031.1	973.1
Income and other taxes payable	250.4	49.5
Current portion of long-term debt (note 6)	30.4	37.6
	1,311.9	1,060.2
Deferred credits	44.3	119.8
Provision for future site restoration (note 10)	497.6	284.0
Long-term debt (note 6)	1,702.9	2,157.2
Future income taxes (note 13)	1,455.4	563.9
	3,700.2	3,124.9
Contingencies and commitments (note 10)		
<b>Shareholders' equity</b>		
Preferred securities (note 7)	430.6	430.6
Common shares (note 8)	2,848.6	2,901.2
Contributed surplus	76.6	79.0
Retained earnings	307.8	212.2
	3,663.6	3,623.0
<b>Total liabilities and shareholders' equity</b>	<b>8,675.7</b>	<b>7,808.1</b>

On behalf of the board:



Director



Director

See accompanying notes.



## CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

(millions of Canadian dollars except per share amounts)	2000	1999	1998
<b>Revenue</b>			
Gross sales	4,835.9	2,317.6	1,533.6
Less royalties	945.8	389.0	213.5
Net sales	3,890.1	1,928.6	1,320.1
Other (note 11)	98.8	46.2	50.6
<b>Total revenue</b>	<b>3,988.9</b>	<b>1,974.8</b>	<b>1,370.7</b>
<b>Expenses</b>			
Operating	826.9	603.5	581.0
General and administrative	94.9	70.1	58.9
Depreciation, depletion and amortization	1,152.6	746.6	614.8
Dry hole	77.3	50.6	91.2
Exploration	99.6	79.5	102.4
Interest on long-term debt (note 5)	135.9	119.6	91.0
Other (note 5 and 12)	15.8	(60.6)	143.7
<b>Total expenses</b>	<b>2,403.0</b>	<b>1,609.3</b>	<b>1,683.0</b>
Income (loss) before taxes	1,585.9	365.5	(312.3)
Taxes (note 13)			
Current income tax	333.5	48.8	14.6
Future income tax (recovery)	196.5	109.2	(87.9)
Petroleum Revenue Tax	149.6	30.7	19.8
	679.6	188.7	(53.5)
<b>Net income (loss)</b>	<b>906.3</b>	<b>176.8</b>	<b>(258.8)</b>
Preferred security charges, net of tax	22.5	13.3	—
<b>Net income (loss) available to common shareholders</b>	<b>883.8</b>	<b>163.5</b>	<b>(258.8)</b>
<b>Per common share</b> (Canadian dollars) (note 8)			
Net income (loss) available to common shareholders	6.41	1.31	(2.31)
Diluted net income (loss) available to common shareholders	6.32	1.30	(2.31)
Average number of common shares outstanding (millions)	137.8	124.6	111.9

See accompanying notes.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31

(millions of Canadian dollars)	2000	1999	1998
Retained earnings, beginning of year	212.2	48.7	307.5
Net income (loss)	906.3	176.8	(258.8)
Adoption of new accounting policy (note 13)	(670.4)	—	—
Purchase of common shares	(117.8)	—	—
Preferred security charges, net of tax	(22.5)	(13.3)	—
Retained earnings, end of year	307.8	212.2	48.7

See accompanying notes.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

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Years ended December 31

(millions of Canadian dollars)	2000	1999	1998
<b>Operating</b>			
Net income (loss)	906.3	176.8	(258.8)
Items not involving current cash flow (note 14)	1,406.9	854.5	787.5
Exploration	99.6	79.5	102.4
Cash flow	2,412.8	1,110.8	631.1
Changes in non-cash working capital (note 14)	321.5	(179.4)	(64.1)
Cash provided by operating activities	2,734.3	931.4	567.0
<b>Investing</b>			
Corporate acquisitions (note 2)	—	(79.2)	(28.4)
Capital expenditures			
Exploration, development and corporate	(1,194.4)	(1,013.0)	(1,158.7)
Acquisitions	(430.8)	(481.7)	(65.4)
Proceeds of dispositions			
Resource properties	81.0	132.5	157.2
Investments	0.2	3.2	—
Investments	—	—	0.1
Changes in non-cash working capital	(406.9)	379.9	76.4
Cash used in investing activities	(1,950.9)	(1,058.3)	(1,018.8)
<b>Financing</b>			
Long-term debt repaid	(2,880.3)	(1,422.7)	(740.8)
Long-term debt issued	2,367.2	1,249.5	1,029.0
Common shares (purchased) issued	(172.8)	19.1	8.7
Preferred securities issued	—	428.0	—
Preferred security charges	(40.1)	(23.7)	—
Deferred credits and other	(35.7)	83.9	(5.0)
Changes in non-cash working capital	0.3	(150.7)	150.3
Cash (used in) provided by financing activities	(761.4)	183.4	442.2
Net increase (decrease) in cash	22.0	56.5	(9.6)
Cash (bank indebtedness), beginning of year	54.0	(2.5)	7.1
Cash (bank indebtedness), end of year	76.0	54.0	(2.5)

See accompanying notes.



## 1. Significant Accounting Policies

The Consolidated Financial Statements of Talisman Energy Inc. ("Talisman" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. A summary of the differences between accounting principles generally accepted in Canada and those generally accepted in the United States ("US") is contained in note 16 to these statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### a) Consolidation

All subsidiaries are wholly owned and included in the Consolidated Financial Statements. A substantial portion of Talisman's activities are conducted jointly with others and the Consolidated Financial Statements reflect only the Company's proportionate interest in such activities.

### b) Inventories

Product inventories are valued at the lower of average cost and market value. Materials and supplies are valued at the lower of average cost and net realizable value.

### c) Property, plant and equipment

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Costs of drilling exploratory wells are initially capitalized and, if subsequently determined to be unsuccessful, are charged to dry hole expense. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred. Producing properties and significant unproved properties are assessed annually, or as economic events dictate, for potential impairment.

### d) Depreciation, depletion and amortization

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis.

Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves, including offshore platform costs, are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. At the date of acquisition, an evaluation period is determined after which any remaining probable reserve costs associated with producing fields are transferred to depletable costs; costs not associated with producing fields are amortized over a period not exceeding the remaining lease term.

Costs associated with significant development projects are not depleted until commercial production commences. Unproved land acquisition costs that are individually immaterial are amortized on a straight-line basis over the average lease term until properties are determined to be productive or impaired. Gas plants, net of estimated salvage values, are depreciated on a straight-line basis over their estimated remaining useful lives, not to exceed the estimated remaining productive lives of related fields. Pipelines and corporate assets are depreciated using the straight-line method at annual rates of 7% and 5% to 33%, respectively.

### e) Future site restoration

Estimated costs of future dismantlement, site restoration and abandonment of oil and gas properties, including offshore production platforms, are provided for using the unit of production method while those of gas plants and facilities are provided for using the straight-line method at rates approximating their useful lives but not exceeding the estimated remaining productive lives of related fields. The annual provision is included within depletion, depreciation and amortization expense and is based on engineering estimates using current costs and technology and in accordance with existing legislation and industry practice. Expenditures are charged against the accumulated provision as incurred. When a property is disposed of, the associated accumulated provision is eliminated and included in determination of the gain or loss on disposal.

### f) Capitalized interest

Interest costs associated with major development projects are capitalized until commercial production commences.



**g) Indonesian and Sudanese royalties**

Indonesian and Sudanese operations conducted jointly with the respective national oil companies ("Pertamina" and "Sudapet") are reflected in the Consolidated Financial Statements based on Talisman's proportionate interest in such activities. All other Pertamina stakes, other than income taxes, are considered to be royalty interests. Royalties on production from Indonesian and Sudanese properties represent the entitlement of the respective governments to a portion of Talisman's share of crude oil, liquids and natural gas production and are recorded using rates in effect under the terms of contracts at the time of production.

**h) Petroleum Revenue Tax**

United Kingdom Petroleum Revenue Tax ("PRT") is accounted for using the life of the field method whereby total future PRT is estimated using current reserves and anticipated costs and prices and charged to income based on current revenues as a proportion of estimated future revenues. Changes in the estimated total future PRT are accounted for prospectively.

**i) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Gains and losses on translation are reflected in income when incurred, except for gains or losses on translation of foreign currency denominated long-term debt, which are deferred and amortized using the straight-line method over the expected minimum period to settlement.

**j) Employee benefit plans**

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees. The transitional asset and obligations are being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans.

**k) Financial instruments**

The Company may enter into financial instruments to hedge against adverse fluctuations in foreign exchange rates, interest rates and commodity prices. Payments or receipts on financial instruments that are designated and effective as hedges are recognized in income concurrently with the hedged transaction. If the hedge of an anticipated future transaction is terminated or if a hedge ceases to be effective, the gain or loss at that date is deferred and recognized concurrently with the anticipated transaction. Subsequent changes in the value of the financial instrument are reflected in income. Any financial instrument that does not constitute a hedge is recorded at fair value with any resulting gain or loss reflected in income.

**l) Income taxes**

Effective January 1, 2000, Talisman adopted the liability method to account for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Under the liability method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes from those reported for income tax. Future income tax assets and liabilities are measured using substantively enacted tax rates. The impact of a change in tax rate is recognized in net income in the period in which the tax rate is substantively enacted. The liability method was applied retroactively without restatement of the 1999 financial statements. The effect of the new recommendations on the opening 2000 financial statements and net income for the year ended December 31, 2000 is described in note 13.

**m) Deferred revenue**

Revenue from Sudanese production is recognized based on the Company's proportionate working interest. In accordance with contract provisions, Talisman receives upstream capital cost recovery priority and accumulated, as at December 31, 2000, \$28.1 million (1999 — \$78.5 million) of deferred revenue. It is expected that commencing in the second quarter of 2001, upstream capital cost recovery will revert to being proportionately shared based on working interest.



**n) Stock option plans**

Talisman has stock option plans for employees and directors, which are described in note 8. No amount of compensation expense has been recognized in the financial statements. Any consideration paid by employees on the exercise of options is credited to share capital.

**o) Comparative Figures**

Certain 1999 figures have been reclassified to conform to the presentation adopted in 2000.

## 2. Corporate Acquisitions

### Rigel Energy Corporation

In September 1999, Talisman purchased all the issued shares of Rigel Energy Corporation ("Rigel"), an oil and gas exploration and development company, in exchange for issuing 17.1 million common shares valued at \$735.8 million, cash of \$57.0 million and long-term debt assumed of \$329.4 million. The acquisition has been accounted for using the purchase method and the results of Rigel have been included in these financial statements from the date of acquisition.

Net Assets Acquired	
Property, plant and equipment	1,262.9
Net non-cash working capital	(29.6)
Deferred income taxes and other	(89.8)
	1,143.5
Cash	3.6
Less acquisition costs	(24.9)
	1,122.2

### Highridge Exploration Ltd.

In July 1999, Talisman purchased all the issued shares of Highridge Exploration Ltd. ("Highridge"), an oil and gas exploration and development company, in exchange for issuing 1.6 million common shares valued at \$60.0 million and long-term debt assumed of \$27.8 million. The acquisition has been accounted for using the purchase method and the results of Highridge have been included in these financial statements from the date of acquisition.

Net Assets Acquired	
Property, plant and equipment	91.8
Net non-cash working capital	(0.4)
Deferred income taxes and other	(2.6)
	88.8
Cash	0.2
Less acquisition costs	(1.2)
	87.8

### Arakis Energy Corporation

In October 1998, Talisman purchased all the issued shares of Arakis Energy Corporation ("Arakis"), an oil and gas exploration and development company, in exchange for issuing 8.9 million common shares valued at \$277.5 million. The acquisition has been accounted for using the purchase method and the results of Arakis have been included in these financial statements from the date of acquisition.

Net Assets Acquired	
Property, plant and equipment	377.7
Net non-cash working capital	(79.9)
Other	8.1
	305.9
Indebtedness due to Talisman	(71.8)
Cash	54.4
Less acquisition costs	(11.0)
	277.5



### 3. Inventories

	2000	1999
December 31		
Materials and supplies	100.1	79.3
Product	3.2	5.1
	103.3	84.4

### 4. Employee Benefits

The Company sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The following significant actuarial assumptions were employed to determine the periodic pension expense and the accrued benefit obligations:

	2000	1999	1998
Expected long-term rate of return on plan assets (%)	7.5	7.5	7.0
Discount rate (%)	6.6	7.0	7.0
Rate of compensation increase (%)	4.5	3.5	5.5

The Company's net benefit plan credit is as follows:

	2000	1999	1998
Current service cost — defined benefit	1.4	1.3	1.4
Current service cost — defined contribution	3.8	3.6	3.0
Interest cost	4.5	4.0	4.7
Expected return on plan assets	(9.9)	(9.3)	(9.0)
Amortization of net transitional asset	(1.3)	(1.3)	—
Amortization of other items	—	—	(7.1)
Net benefit plan credit	(1.5)	(1.7)	(7.0)

Information about the Company's defined pension benefit plans, in aggregate, is as follows:

	2000	1999
<b>Accrued benefit obligation</b>		
Accrued benefit obligation, beginning of year	73.9	80.3
Current service cost	1.3	1.3
Interest cost	4.5	4.0
Actuarial (gains) losses	6.1	(7.3)
Benefits paid	(4.8)	(4.4)
Accrued benefit obligation, end of year <sup>1</sup>	81.0	73.9
<b>Plan assets</b>		
Fair value of plan assets, beginning of year	147.1	145.9
Actual return on plan assets	19.9	8.5
Employer contributions	0.9	0.7
Surplus applied to defined contribution plan	(3.8)	(3.6)
Benefits paid	(4.8)	(4.4)
Fair value of plan assets, end of year <sup>1</sup>	159.3	147.1
<b>Funded status — plan surplus</b>	78.3	73.2
Unamortized net actuarial gains	(14.1)	(9.4)
Unamortized past service costs	—	—
Unamortized net transitional asset	(11.7)	(13.0)
Other	(0.2)	(0.8)
Net accrued benefit asset	52.3	50.0

<sup>1</sup> The accrued pension benefit obligation for a plan with an accrued benefit obligation in excess of plan assets was \$18.3 million as at December 31, 2000 (1999 — \$14.3 million). The fair value of pension assets from this plan was \$4.2 million as at December 31, 2000 (1999 — \$3.6 million).

At December 31, 2000, the actuarial net present value of the accrued benefit obligation for other post-retirement benefit plans was \$7.6 million (1999 — \$5.8 million).



## 5. Property, Plant and Equipment

December 31, 2000	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	7,024.1	2,556.9	4,467.2
Gas plants, pipelines and production equipment	3,832.9	852.3	2,980.6
Corporate assets	151.6	98.8	52.8
	<b>11,008.6</b>	<b>3,508.0</b>	<b>7,500.6</b>
December 31, 1999			
Oil and gas properties	5,902.9	1,872.6	4,030.3
Gas plants, pipelines and production equipment	3,544.8	641.2	2,903.6
Corporate assets	136.4	87.3	49.1
	<b>9,584.1</b>	<b>2,601.1</b>	<b>6,983.0</b>

In the year ended December 31, 2000, interest costs of \$15.7 million (1999 – \$41.4 million, 1998 – \$51.0 million) were capitalized relating to the Blake oil field development in the North Sea.

Included in other expenses (income) in 1998 are impairment writedowns associated with certain North Sea assets of \$245.7 million, largely the result of gas contract cancellations and low oil prices. The writedowns relate to the Southern Gas Basin and the Beatrice and Ross fields.

Included in property, plant and equipment are the following costs that were not subject to depreciation, depletion or amortization ("DD&A"):

Non-depleted capital at December 31	<b>2000</b>	1999
Acquired probable reserve costs		
Canada – associated with producing fields	256.4	292.2
North Sea – associated with producing fields	180.7	–
North Sea – not associated with producing fields	45.9	59.7
Exploration costs <sup>1</sup>	265.2	169.8
	<b>748.2</b>	<b>521.7</b>

<sup>1</sup> Exploration costs consist of drilling in progress and wells awaiting determination of proved reserves or commencement of production.

In addition, at December 31, 2000, \$312.3 million (1999 – \$166.0 million; 1998 – \$839.7 million) in development costs relating to the North Sea were not being depleted pending initial production.

The carrying values of property, plant and equipment, including acquired probable reserve costs, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the financial statements.

## 6. Long-Term Debt

December 31	<b>2000</b>	1999
Bank Credit Facilities <sup>1</sup>		
Project Loan Facility (2000 – US\$95.5 million, 8.56%; 1999 – US\$164.1 million, 7.81%)	143.2	236.8
Revolving Bank Credit Facilities (1999 – 5.06%) <sup>2</sup>	–	585.4
Debentures and Notes (Unsecured) <sup>3</sup>		
7.25% debentures (US\$300 million), due 2027	450.0	433.0
6.96% notes (US\$200 million), due 2005	300.0	288.6
7.125% debentures (US\$175 million), due 2007	262.6	252.6
5.70% medium term notes, due 2003	180.0	180.0
8.06% medium term notes, due 2002 <sup>4</sup>	175.0	–
9.80% debentures, Series B, due 2004	75.0	75.0
6.89% notes (US\$50 million), Series B, due 2010	75.0	72.2
6.71% notes (US\$25 million), Series A, due 2004	37.5	36.2
9.66% medium term notes, due 2002	35.0	35.0
	<b>1,733.3</b>	<b>2,194.8</b>
Less current portion	<b>(30.4)</b>	<b>(37.6)</b>
	<b>1,702.9</b>	<b>2,157.2</b>

<sup>1</sup> Rates reflect the weighted-average interest rate of instruments outstanding at December 31. Rates are floating rate-based and vary with changes in short-term market interest rates.

<sup>2</sup> The outstanding revolving bank credit facilities balance at December 31, 1999 had been entirely classified as long-term debt since the Company had both the ability to replace the current portion with long-term borrowings under the revolving bank credit facilities and the intention to extend the terms of the respective revolving credit facilities in 2000.

<sup>3</sup> Interest on all debentures and notes is payable semi-annually.

<sup>4</sup> Extendible to 2009 at the option of the holders.



### Project Loan Facility

Talisman, through an indirect wholly owned subsidiary, indirectly financed a portion of the construction costs for the Corridor Gas Project within the Corridor Production Sharing Contract ("PSC") by way of a credit agreement with an international banking syndicate.

The Company's share of borrowings under the non-revolving credit agreement is 40%. Borrowings consist of US dollar London Interbank Offered Rate ("LIBOR") based loans. The principal of the loan is being repaid in quarterly installments, together with accrued interest, over a period not to extend beyond February 26, 2007.

The lenders' security is restricted to the shares and underlying assets of the indirect wholly owned subsidiary that entered into the credit agreement and includes Talisman's interest in the Corridor PSC. Talisman has provided letters of credit in the amount of US\$23.4 million (\$35.2 million) to provide security under this credit agreement including certain debt service requirements.

### Revolving Bank Credit Facilities

Talisman has unsecured extendible revolving-term credit facilities totaling \$1.108 billion, consisting of facilities of \$504 million ("Facility No. 1"), \$504 million ("Facility No. 2") and \$100 million ("Facility No. 3"). The term dates of these facilities are March 23, 2001, October 10, 2001 and November 1, 2001, respectively. Until each term date, the Company may borrow, repay and reborrow at its discretion. Annually, upon agreement between the Company and the respective lenders, each term date may be extended for an additional 364 days.

Borrowings under Facility No. 1 and Facility No. 2 are available in the form of prime loans, Canadian or US dollar bankers' acceptances, US dollar base rate loans or LIBOR-based loans. In addition, drawings to a total of \$250 million may be made by letters of credit. Borrowings under Facility No. 3 are available in the form of prime loans, Canadian bankers' acceptances, US dollar base rate loans or LIBOR-based loans.

Each of Facilities No. 1 and No. 2 expire five years after the then current term date and, if the term date is not extended, must be repaid in equal semi-annual payments beginning six months after the term date. Facility No. 3 expires one year after the then current term date and if the term is not extended, must be repaid on the expiry date.

### Repayment Schedule

The Company's contractual minimum repayments of long-term debt in the next five years are as follows:

Year	
2001	30.4
2002	231.5
2003	201.5
2004	134.0
2005	321.6
Subsequent to 2005	814.4
<b>Total</b>	<b>1,733.4</b>

## 7. Preferred Securities

During 1999, Talisman issued 12 million preferred securities ("securities") as unsecured junior subordinated debentures, at US\$25 per security, of which six million 9% securities are due February 15, 2048 and six million 8.9% securities are due June 15, 2048. The securities are redeemable, in whole or in part, at par by Talisman through the payment of cash or issuance of common shares at any time on or after February 15, 2004 and June 15, 2004, respectively. The Company has the option to defer the payment of the security charges for up to 20 consecutive three month periods and satisfy such deferred security charges with either cash or the issuance of common shares. Security charges are due quarterly.



## 8. Share Capital

Talisman's authorized share capital consists of an unlimited number of common shares without nominal or par value and first and second preferred shares. No preferred shares have been issued.

Continuity of common shares	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, beginning of year	138,346,297	2,901.2	118,907,320	2,086.3	109,644,306	1,800.1
Issued during year						
Acquisition of Arakis	—	—	—	—	8,921,839	277.5
Acquisition of Highridge	—	—	1,587,589	60.0	—	—
Acquisition of Rigel	—	—	17,092,733	735.8	—	—
Exercise of stock options	1,276,048	37.4	758,655	19.1	341,175	8.7
Purchased during year	(4,278,300)	(90.0)	—	—	—	—
Balance, end of year	135,344,045	2,848.6	138,346,297	2,901.2	118,907,320	2,086.3

Talisman has stock option plans that allow employees and directors to receive options to purchase common shares of the Company. Options granted under the plans are generally exercisable after three years and expire 10 years after the grant date, excluding a grant of 1,945,061 options in March 1999 of which one half vested in 1999. Option exercise prices approximate the market price for the common shares on the date the options are issued.

As at December 31, 2000, Talisman has repurchased 4,278,300 common shares of the Company pursuant to a one year normal course issuer bid announced February 25, 2000 for a total of \$210.2 million.

Continuity of stock options	2000		1999		1998	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding at January 1	7,211,864	32.30	5,946,979	33.49	5,004,675	31.84
Granted	1,097,427	39.31	2,167,149	26.69	1,412,506	37.79
Exercised	1,276,048	29.39	769,594	25.06	341,175	24.77
Forfeited	176,637	36.93	131,670	36.14	129,027	39.65
Expired	1,800	42.55	1,000	25.78	—	—
Outstanding at December 31	6,854,806	33.84	7,211,864	32.30	5,946,979	33.49
Exercisable at December 31	3,529,921	32.67	3,302,439	27.05	2,153,800	25.10
Options available for future grants pursuant to the Company's stock option plans	2,852,102		3,771,092		2,751,571	

The range of exercise prices of the Company's outstanding stock options is as follows:

December 31, 2000	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Years to Expiry	Number of Options	Weighted Average Exercise Price
Range of Exercise Prices					
\$11.94 to \$24.99	620,350	22.56	4	620,350	22.56
\$25.00 to \$29.99	1,866,085	26.35	7	949,851	26.91
\$30.00 to \$39.99	2,216,238	35.05	8	676,600	31.28
\$40.00 to \$52.68	2,152,133	42.33	7	1,283,120	42.54
\$11.94 to \$52.68	6,854,806	33.84	7	3,529,921	32.67

At December 31, 2000, 10,492,431 common shares were reserved for issuance primarily related to the stock option plans.

Effective January 1, 2001, the Company retroactively adopted the new Canadian accounting recommendations for the computation and disclosure of earnings per share with all prior periods being restated. Under the new standard, the treasury method for calculating diluted earnings per share must be used. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period. Had the new recommendations not been adopted for the December 31, 2000 disclosure, the fully diluted net income per share would have been \$6.18/share for the year ended December 31, 2000. During the periods presented, outstanding stock options are the only instruments that are dilutive to earnings per share. For the year ended December 31, 2000, the diluted weighted average number of shares was 139.9 million (1999 – 125.5 million; 1998 – 112.3 million).



## 9. Financial Instruments

### Financial contracts

The following financial contracts were outstanding at December 31:

#### a) Foreign Exchange Rates

The Company entered into the following forward contracts to sell US dollars in exchange for Canadian dollars to fix the exchange rate on anticipated and committed future sales that are effectively denominated in US dollars.

Year	2000		1999	
	Notional Contract Amount (US\$)	Adjusted Weighted Average Contractual Exchange Rate <sup>1</sup> (US\$/C\$)	Notional Contract Amount (US\$)	Adjusted Weighted Average Contractual Exchange Rate <sup>1</sup> (US\$/C\$)
2000	—	—	351.5	0.7048
2001	211.0	0.6647	211.0	0.6647

<sup>1</sup> Includes certain exchange rate adjustments associated with losses recognized for accounting purposes in 1999.

In March 1999, Talisman entered into a number of forward foreign exchange contracts that effectively terminated all existing forward contracts settling in 1999 and, as consideration, the Company was required to enter into new forward contracts settling in 2000 and 2001 at rates less favourable than market. The loss associated with the effective termination was recognized for accounting purposes in 1999. The gross weighted average contractual exchange rate for the new forward contracts was 0.7741 US\$/C\$ (market exchange rate 0.6604 US\$/C\$) on a notional amount of US\$116.5 million settled in 2000 and 0.7533 US\$/C\$ (market exchange rate 0.6575 US\$/C\$) on a notional amount of US\$170 million settling in 2001.

#### b) Interest Rates

In December 1994, in anticipation of issuing the US\$175 million 7.125% debentures, Talisman entered into interest rate swap contracts to hedge against possible adverse interest rate fluctuations. These contracts result in Talisman paying interest at a rate of 8.295% in exchange for receiving the three month LIBOR rate on notional principal of US\$100 million until May 16, 2005. Based on the LIBOR rate at December 31, 2000, these contracts result in an effective rate of interest on the debentures of 8.15%.

In 2000, Talisman entered into swaption agreements whereby the counterparties who hold the swaptions may require Talisman to pay the three-month LIBOR rate and receive 8.295% on a notional amount of US\$100 million for a term ending May 16, 2005. If exercised this would effectively unwind the interest rate swap contracts. The swaption agreement expires November 16, 2001.

#### c) Commodity Prices

Talisman entered into the following commodity price derivative contracts to reduce the volatility of anticipated natural gas and crude oil revenues that are price sensitive to the Nova Inventory Transfer ("NIT"), Sumas or New York Mercantile Exchange ("NYMEX") indices. The amounts shown below are the weighted average of the contracts outstanding at December 31, 2000.

Natural gas price swap contracts	Volumes	Price	Index
January – October 2001	15,000 mcf/d	US\$1.775/mcf	Sumas
January – October 2001	5,000 gj/d	2.37/gj	NIT
Natural gas costless collars (based on NIT index)	2001	2002	2003
Volumes (gj/d)	5,000	6,700	12,500
Ceiling price (\$/gj)	2.85	3.36	3.25
Floor price (\$/gj)	2.68	3.10	2.99
Sold put price (\$/gj)	2.17	2.58	2.46
Crude oil costless collars (based on NYMEX index)	2001		
Volumes (bbls/d)	20,000		
Ceiling price (US\$/bbl)	29.80		
Floor price (US\$/bbl)	24.50		
Sold put price (US\$/bbl)	21.50		

The commodity costless collars are similar to standard commodity price collars except that should the index price fall below the sold put price, Talisman will receive the index price plus the difference between the floor and sold put prices.



### Carrying Amounts and Estimated Fair Values of Financial Instruments

Asset (liability) at December 31	2000			1999		
	Carrying Value	Fair Value	Unrecognized	Carrying Value	Fair Value	Unrecognized
Debentures and notes	(1,590.1)	(1,605.1)	(15.0)	(1,372.6)	(1,302.0)	70.4
Foreign exchange forward contracts	(29.0)	(30.9)	(1.9)	(48.8)	(55.0)	(6.2)
Interest rate swap contracts	—	(13.3)	(13.3)	—	(7.8)	(7.8)
Interest rate swaption contracts	—	(0.1)	(0.1)	—	—	—
Natural gas price contracts	—	(84.4)	(84.4)	—	(7.4)	(7.4)
Crude oil price contracts	—	3.5	3.5	—	(3.3)	(3.3)

Borrowings under bank credit facilities are for short terms and are market rate based, thus, carrying values approximate fair value. The fair value of debentures and notes is based on market quotations, which reflect the discounted present value of the principal and interest payments using the effective yield at December 31 for instruments having the same term and risk characteristics. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash, accounts receivable, accounts payable, and income and other taxes payable, approximate their carrying values.

#### Credit Risk

A significant portion of the Company's accounts receivable are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad domestic and international customer base, which includes a significant number of companies engaged in joint operations with Talisman. The Company routinely assesses the financial strength of its partners and customers, including parties involved in marketing or other commodity arrangements. At December 31, 2000, amounts due from any one party are not material, except that a substantial portion of the Company's Indonesian accounts receivable are due from Pertamina, representing approximately 5% of consolidated accounts receivable.

The Company is exposed to credit risk associated with possible non-performance by derivative instrument counterparties. The Company does not generally require collateral from its counterparties, but believes the risks of non-performance are minimal as the counterparties are major financial institutions or global credit worthy energy marketing entities that have investment grade credit ratings as determined by recognized credit rating agencies. The Company also limits its total exposure to individual counterparties.

## 10. Contingencies And Commitments

Talisman is party to various legal claims associated with the ordinary conduct of business. These claims are not currently expected to have a material impact on the Company's financial position.

Talisman's estimated total future dismantlement, site restoration and abandonment liability at December 31, 2000 was \$1.4 billion (1999 — \$1.0 billion), approximately 80% of which is denominated in UK pounds sterling. At December 31, 2000, Talisman had accrued \$497.6 million (1999 — \$284.0 million) of this liability and will continue to accrue the remaining balance in accordance with the Company's policy as set out in note 1(e). The Company has provided letters of credit in 2001 in the amount of £143.4 million (\$321.6 million) as security for the costs of future dismantlement, site restoration and abandonment costs for certain North Sea fields included in the above total. Estimated future dismantlement, site restoration and abandonment costs and the related provision in the financial statements are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment. For example, changes in legislation or technology may result in actual future costs that differ materially from those estimated.

Talisman has firm commitments for gathering, processing and transmission services that require the Company to deliver certain minimum quantities of crude oil and liquids and natural gas to third parties or pay the corresponding tariffs. The Company has sufficient production to meet these commitments.

Talisman leases certain of its production facilities and corporate offices, all of which are accounted for as operating leases. Talisman is under contract to lease the Ross Floating Production, Storage and Offloading vessel ("FPSO") from a third party. The term of the FPSO lease depends on the expected life of the Ross and Blake fields. In addition, Talisman has ongoing operating commitments associated with the FPSO.



Estimated future minimum commitments<sup>1</sup>

Year	Transportation Commitment	Office Lease Payments	FPSO Payments	Total
2001	100.6	12.8	32.4	145.8
2002	57.9	12.3	32.4	102.6
2003	48.9	11.8	77.1	137.8
2004	42.2	11.8	—	54.0
2005	33.7	11.6	—	45.3
Subsequent to 2005	248.6	127.6	—	376.2
	531.9	187.9	141.9	861.7

1 Future minimum payments denominated in US dollars and UK pounds sterling have been translated into Canadian dollars based on the December 31, 2000 exchange rates.

The Company has entered into fixed price sales contracts for a portion of its future gas production. The following is the average volumes under contract for the next five years and the weighted average contract price in each of these years.

	2001	2002	2003	2004	2005
Volumes (gj/d)	106,500	85,000	73,000	35,500	16,000
Weighted average price (\$/gj)	2.52	2.96	2.98	3.04	3.02

In addition to the fixed price contracts, the Company has entered into contracts with a pricing structure similar to the costless collar commodity price derivatives disclosed in note 9(c). The weighted average volumes and prices under these NIT based index contracts at December 31, 2000 are as follows:

	2001	2002	2003	2004
Volumes (gj/d)	23,000	15,000	18,750	17,000
Call strike (\$/gj)	3.26	3.23	3.28	3.19
Put strike (\$/gj)	3.05	3.09	3.14	3.04
Sold put strike (\$/gj)	2.58	2.58	2.58	2.44

These contracts are similar to standard commodity price collars with the call and put strike prices being equivalent to the ceiling and floor prices, except that should the NIT index fall below the sold put strike price, Talisman will receive NIT plus the difference between the put strike and sold put strike prices.

## 11. Other Revenue

Year ended December 31	2000	1999	1998
Pipeline and custom treating tariffs	82.1	34.8	37.6
Investment income	12.8	10.7	9.8
Marketing income	3.9	0.7	3.2
	98.8	46.2	50.6

## 12. Other Expenses (Income)

Year ended December 31	2000	1999	1998
Net gain on asset disposals	(12.2)	(83.8)	(89.3)
Impairment writedowns	—	20.8	245.7
Foreign exchange loss (gain)	8.4	(1.2)	8.6
Gain on marketing contract settlements	—	—	(15.9)
Miscellaneous interest expense	11.0	1.6	3.0
Other expense (income)	8.6	2.0	(8.4)
	15.8	(60.6)	143.7



### 13. Taxes

#### Income Taxes

As disclosed in note 1(l), effective January 1, 2000, the Company retroactively adopted without restatement the liability method to account for income taxes. Previously, the deferral method was followed, which determined deferred income taxes based on the differences in the timing and expenses reported for financial accounting purposes from those reported for income tax purposes. The effect of the new accounting policy on the 2000 financial statements was to increase (decrease) the following:

Future income taxes at January 1, 2000	\$670.4 million
Retained earnings at January 1, 2000	(\$670.4 million)
Net Income	\$80.0 million

The adjustment to retained earnings resulted primarily from the recognition of the future tax cost of past corporate acquisitions where the tax basis acquired was less than the purchase price.

The current and future income taxes for each of the three years ended December 31 are as follows:

Year ended December 31	2000	1999	1998
Current income taxes (recovery)			
Canada <sup>1</sup>	9.5	5.9	5.3
United Kingdom	233.1	13.2	(13.4)
Netherlands	3.7	2.2	5.3
Indonesia	31.1	14.1	15.2
Sudan	54.2	11.0	—
Other	1.9	2.4	2.2
	333.5	48.8	14.6
Future income taxes (recovery)			
Canada	146.8	56.4	6.8
United Kingdom	(32.7)	16.9	(59.9)
Netherlands	2.0	(2.7)	1.9
Indonesia	88.5	47.1	(21.5)
Sudan	5.4	(2.1)	—
Other	(13.5)	(6.4)	(15.2)
	196.5	109.2	(87.9)
Income taxes	530.0	158.0	(73.3)

<sup>1</sup> Current Canadian income taxes include the federal tax on large corporations, net of Alberta royalty tax credits.

The components of the future tax liability at December 31, 2000 are as follows:

Future tax liabilities	
Property, plant and equipment	1,692.8
Pension assets	23.0
Other	39.4
	1,755.2
Future tax assets	
Provision for future site restoration	159.8
Tax credits carried forward <sup>1</sup>	117.5
Other	22.5
	299.8
Net future tax liability	1,455.4

<sup>1</sup> The future tax effects associated with tax credits carried forward at December 31, 2000 expire subsequent to 2002.

Deferred distribution taxes associated with operations in the UK have not been recorded because, based on current plans, repatriation of funds in excess of foreign reinvestment will not result in material amounts of tax expense. Unremitted earnings in other foreign jurisdictions are not material.



Income taxes vary from the amount that would be computed by applying the Canadian statutory income tax rate of 44.04% for the year ended December 31, 2000 (1999 – 44.04%, 1998 – 43.8%):

Year ended December 31	2000	1999	1998
Income taxes calculated at the Canadian statutory rate	698.4	161.0	(136.9)
Increase (decrease) in income taxes resulting from:			
Non-deductible royalties, mineral taxes and expenses	203.3	82.8	50.6
Resource allowances	(161.7)	(69.8)	(41.4)
Non-deductible depreciation, depletion and amortization	—	56.0	66.2
Deductible PRT expense	(64.4)	(12.6)	(8.1)
Lower foreign tax rates (net)	(172.4)	(64.7)	(7.6)
Provincial rebates and credits	(0.5)	(4.0)	(4.1)
Federal tax on large corporations	6.5	4.5	4.2
Other	20.8	4.8	3.8
Income taxes	530.0	158.0	(73.3)

#### Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) expense primarily relates to the North Sea and is comprised of current tax expense of \$165.4 million (1999 – \$19.5 million; 1998 – \$8.2 million) and deferred tax recovery of \$15.8 million (1999 – \$11.2 million, expense; 1998 – \$11.6 million, expense). The measurement of PRT expense and the related provision in the Consolidated Financial Statements is subject to uncertainty associated with future recoverability of oil and gas reserves, commodity prices and the timing of future events, which could result in material changes to deferred amounts.

## 14. Consolidated Statements of Cash Flows

Selected cash flow information:

Year ended December 31	2000	1999	1998
Net income (loss)	906.3	176.8	(258.8)
Items not involving current cash flow			
Depreciation, depletion and amortization	1,152.6	746.6	614.8
Impairment writedowns	—	20.8	245.7
Dry hole	77.3	50.6	91.2
Net gain on asset disposals	(12.2)	(83.8)	(89.3)
Future taxes and deferred PRT (recovery)	180.7	120.4	(76.3)
Other	8.5	(0.1)	1.4
	1,406.9	854.5	787.5
Exploration	99.6	79.5	102.4
Cash flow	2,412.8	1,110.8	631.1
Cash flow per common share (dollars)	17.51	8.91	5.64
Diluted cash flow per common share (dollars)	17.25	8.85	5.62
Cash interest paid (net of capitalized interest)	147.2	125.5	78.2
Cash income taxes paid	182.1	10.8	34.5

Cash and cash equivalents include short-term investments with maturities of three months or less.

Changes in operating non-cash working capital consisted of the following:

Year ended December 31	2000	1999	1998
Accounts receivable	(247.2)	(217.5)	34.3
Inventories	(19.0)	(18.5)	(7.6)
Prepaid expenses	2.1	(6.4)	1.8
Accounts payable and accrued liabilities	384.7	42.2	(72.9)
Income and other taxes payable	200.9	20.8	(19.7)
Net source (use) of cash	321.5	(179.4)	(64.1)



## 15. Segmented Information

Talisman's activities are conducted in five geographic segments: Canada, the North Sea, Indonesia, Sudan and other international locations. The North Sea segment includes operations in the UK and the Netherlands. All activities relate to the exploration, development and production of oil, liquids and natural gas.

	Canada			North Sea		
	2000	1999	1998	2000	1999	1998
<b>Revenue</b>						
Gross sales						
Oil and liquids	798.9	450.7	307.2	1,513.0	583.0	380.6
Natural gas	1,215.6	609.0	466.4	159.4	128.4	148.6
Synthetic oil	41.3	28.3	20.0	—	—	—
Sulphur	2.8	1.4	(1.0)	—	—	—
Total gross sales	2,058.6	1,089.4	792.6	1,672.4	711.4	529.2
Royalties	510.8	223.5	131.0	70.4	16.7	6.7
Net sales	1,547.8	865.9	661.6	1,602.0	694.7	522.5
Other	18.9	18.0	19.5	78.1	26.8	28.6
Total revenue	1,566.7	883.9	681.1	1,680.1	721.5	551.1
<b>Segmented expenses</b>						
Operating						
Oil and liquids	97.5	73.4	70.2	374.1	250.4	266.4
Natural gas	155.4	127.7	115.9	25.3	31.9	39.5
Synthetic oil	16.5	12.5	13.0	—	—	—
Pipeline	3.5	3.1	3.0	35.2	13.8	14.4
Total operating expenses	272.9	216.7	202.1	434.6	296.1	320.3
DD&A	477.9	368.7	306.7	512.3	282.7	253.0
Dry hole	29.1	12.7	22.5	14.9	26.4	48.2
Exploration	53.9	39.8	39.9	13.1	8.5	37.5
Other	9.9	(61.0)	(57.8)	(4.1)	(2.4)	190.3
Total segmented expenses	843.7	576.9	513.4	970.8	611.3	849.3
<b>Segmented income (loss) before taxes</b>	723.0	307.0	167.7	709.3	110.2	(298.2)
<b>Corporate expenses</b>						
General and administrative						
Interest on long-term debt						
Total corporate expenses						
<b>Income (loss) before taxes</b>						
<b>Property, plant and equipment</b>	3,658.0	3,369.8	2,304.7	2,483.9	2,217.6	1,537.1
<b>Segmented assets</b>	4,057.1	3,497.6	2,393.3	2,873.1	2,475.6	1,654.9
Add corporate						
<b>Total assets</b>						
<b>Capital expenditures</b>						
Exploration	252.4	106.2	126.9	45.6	39.2	101.9
Development	434.0	217.0	276.8	257.2	256.3	263.9
<b>Exploration and development</b>	686.4	323.2	403.7	302.8	295.5	365.8
Acquisitions <sup>1</sup>						
Proceeds on dispositions						
Corporate						
<b>Net capital expenditures</b>						

<sup>1</sup> Excluding corporate acquisitions

Indonesian oil revenue in 2000, 1999 and 1998 consist entirely of sales to Pertamina. North Sea total revenue for the year ended December 31, 2000 and property, plant and equipment as at December 31, 2000 were \$1,656.9 million



Indonesia			Sudan			Other			Total		
2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998
288.9	261.3	203.7	588.9	133.7	—	—	—	—	3,189.7	1,428.7	891.5
227.1	121.8	8.1	—	—	—	—	—	—	1,602.1	859.2	623.1
—	—	—	—	—	—	—	—	—	41.3	28.3	20.0
—	—	—	—	—	—	—	—	—	2.8	1.4	(1.0)
516.0	383.1	211.8	588.9	133.7	—	—	—	—	4,835.9	2,317.6	1,533.6
112.7	118.6	75.8	251.9	30.2	—	—	—	—	945.8	389.0	213.5
403.3	264.5	136.0	337.0	103.5	—	—	—	—	3,890.1	1,928.6	1,320.1
2.7	—	0.3	0.7	0.9	0.4	(1.6)	0.5	1.8	98.8	46.2	50.6
406.0	264.5	136.3	337.7	104.4	0.4	(1.6)	0.5	1.8	3,988.9	1,974.8	1,370.7
39.9	52.5	54.9	63.8	22.4	—	—	—	—	575.3	398.7	391.5
15.7	15.8	3.7	—	—	—	—	—	—	196.4	175.4	159.1
—	—	—	—	—	—	—	—	—	16.5	12.5	13.0
—	—	—	—	—	—	—	—	—	38.7	16.9	17.4
55.6	68.3	58.6	63.8	22.4	—	—	—	—	826.9	603.5	581.0
83.0	71.8	54.9	79.3	23.2	—	0.1	0.2	0.2	1,152.6	746.6	614.8
17.2	1.3	3.9	3.3	2.0	—	12.8	8.2	16.6	77.3	50.6	91.2
6.4	8.1	10.0	8.2	11.6	2.5	18.0	11.5	12.5	99.6	79.5	102.4
5.6	(0.4)	7.7	(0.5)	2.8	(0.6)	4.9	0.4	4.1	15.8	(60.6)	143.7
167.8	149.1	135.1	154.1	62.0	1.9	35.8	20.3	33.4	2,172.2	1,419.6	1,533.1
238.2	115.4	1.2	183.6	42.4	(1.5)	(37.4)	(19.8)	(31.6)	1,816.7	555.2	(162.4)
									94.9	70.1	58.9
									135.9	119.6	91.0
									230.8	189.7	149.9
									1,585.9	365.5	(312.3)
516.3	553.4	579.6	748.3	768.4	523.9	94.1	73.8	51.5	7,500.6	6,983.0	4,996.8
714.4	808.8	701.6	824.6	853.2	553.5	101.4	78.8	55.9	8,570.6	7,714.0	5,359.2
									105.1	94.1	88.5
									8,675.7	7,808.1	5,447.7
30.1	18.1	32.9	33.1	35.8	4.3	45.6	38.4	47.4	406.8	237.7	313.4
38.7	36.1	146.7	36.8	245.1	144.4	5.5	3.8	—	772.2	758.3	831.8
68.8	54.2	179.6	69.9	280.9	148.7	51.1	42.2	47.4	1,179.0	996.0	1,145.2
									430.8	481.7	65.4
									(81.0)	(132.5)	(157.2)
									15.4	17.0	13.5
									1,544.2	1,362.2	1,066.9

(1999 – \$697.6 million; 1998 – \$518.6 million) and \$2,435.7 million (1999 – \$2,169.4 million; 1998 – \$1,500.3 million), respectively, from the UK and \$23.2 million (1999 – \$23.9 million; 1998 – \$32.5 million) and \$48.2 million (1999 – \$48.2 million; 1998 – \$36.8 million), respectively, from the Netherlands.



## 16. Information for United States Readers

### Accounting Principles Generally Accepted In The United States

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("US GAAP"). Significant differences between Canadian and US GAAP are as follows:

Year ended December 31 (millions of Canadian dollars)	Notes	2000	1999	1998
<b>Net income (loss) – Canadian GAAP</b>		<b>906.3</b>	176.8	(258.8)
Foreign exchange gain (loss) on long-term debt	1,7	(51.8)	87.5	(58.6)
Depreciation, depletion and amortization	2,3,4,7	(66.4)	(35.1)	(179.7)
(Loss) gain on derivative financial instruments	5	(13.1)	8.9	(1.6)
Preferred security charges	7	(40.1)	(23.7)	–
Deferred income taxes	3	27.8	89.7	28.2
		(143.6)	127.3	(211.7)
<b>Net income (loss) – US GAAP</b>		<b>762.7</b>	304.1	(470.5)
Per common share (Canadian dollars)				
Net income (loss)		5.54	2.44	(4.20)
Diluted net income (loss)		5.45	2.42	(4.20)

There are no comprehensive income items other than net income.

Balance sheet items in accordance with US GAAP are as follows:

December 31 (millions of Canadian dollars)	Notes	2000		1999	
		Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Other assets	1,5,7	80.8	27.1	45.0	56.6
Property, plant and equipment	2,3,4	7,500.6	7,984.3	6,983.0	7,387.0
Long-term debt	7	1,702.9	2,136.1	2,157.2	2,589.9
Future taxes	3	1,455.4	1,338.0	563.9	1,123.4
Share capital and contributed surplus	6,7	3,355.8	2,941.7	3,410.8	2,996.7
Retained earnings (deficit)	1-7	307.8	836.1	212.2	49.7

- Foreign exchange on long-term debt** – US GAAP requires long-term debt denominated in foreign currencies be translated at the rates of exchange in effect on the balance sheet date, with inclusion of the resulting gain or loss in net income for the period. Canadian GAAP requires these gains or losses be amortized over the life of the long-term debt.
- Gains on property exchanges** – Under both US and Canadian GAAP, property exchanges are recorded at the carrying value of the assets given up unless the exchange transaction includes significant cash consideration, in which case it is recorded at fair value. Under US GAAP, asset exchange transactions are recorded at fair value if cash consideration is greater than 25% (10% under Canadian GAAP) of the fair value of total consideration given or received. The resulting differences in the recorded carrying values of these properties further results in differences in depreciation, depletion and amortization expense in subsequent years.
- Income taxes and depreciation, depletion and amortization expense** – In 2000, the Company adopted the liability method to account for income taxes as explained in note 13. The change to the liability method has eliminated a conceptual difference between Canadian and US GAAP, however, in accordance with the recommendations of the Canadian Institute of Chartered Accountants the effect of the adoption under Canadian GAAP resulted in a charge to retained earnings, whereas, under US GAAP the future tax costs that gave rise to the Canadian GAAP adjustment have already been reflected in property, plant and equipment. As a result of the implementation method, further differences in depreciation, depletion and amortization expense result in subsequent years.
- Impairments** – Under both US and Canadian GAAP, property, plant and equipment must be assessed for potential impairments. Under US GAAP, if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, then an impairment loss (the amount by which the carrying amount of the asset exceeds the fair value of the asset) should be recognized. Fair value is calculated as the present value of estimated expected future cash flows. Under Canadian GAAP, the impairment loss is the difference between the carrying value of the asset and its net recoverable amount (undiscounted). The resulting differences in recorded carrying values of impaired assets further results in differences in depreciation, depletion and amortization expense in subsequent years.



- 5 Forward foreign exchange contracts and other derivative financial instruments** – The Company has designated, for Canadian GAAP purposes, its derivative financial instruments as hedges of anticipated revenue and expenses. In accordance with Canadian GAAP, payments or receipts on these contracts are recognized in income concurrently with the hedged transaction. The fair values of the contracts deemed to be hedges are not reflected in the financial statements. Certain of these contracts, including forward foreign exchange contracts associated with anticipated future transactions that do not constitute firm commitments, do not qualify as hedges under US GAAP and accordingly, are recognized in the financial statements at fair value, with any resulting gain or loss immediately reflected in income.
- 6 Appropriation of contributed surplus** – In 1992, concurrent with a change in control of the Company, \$16.5 million of contributed surplus was appropriated to retained earnings to eliminate the deficit at June 30, 1992. This restatement of retained earnings is not permitted under US GAAP as the events that precipitated it did not constitute a quasi-reorganization.
- 7 Preferred Securities** – Under US GAAP, Talisman's preferred securities are treated as debt rather than equity and accordingly are translated at the rates of exchange in effect at the balance sheet date. In addition, the annual preferred security charges under US GAAP are classified as an expense rather than a direct charge to retained earnings. Under US GAAP, the cost associated with the issuance of the preferred securities is recorded as an asset and is amortized over the term of the preferred securities. Under Canadian GAAP, this cost, net of tax, is charged directly to shareholders' equity. The fair market value of the preferred securities at December 31, 2000 was \$450.1 million (1999 – \$372.1 million).

#### Stock Option Plans

No amount of compensation expense has been recognized in the financial statements for stock options granted to employees and directors. The following table provides pro forma measures of net income (loss) and net income (loss) per common share in accordance with US GAAP had stock options been recognized as compensation expense based on the estimated fair value of the options on the grant date in accordance with SFAS No. 123.

	2000		1999		1998	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income (loss)	762.7	746.6	304.1	277.1	(470.5)	(481.9)
Net income (loss) per common share	5.54	5.42	2.44	2.22	(4.20)	(4.30)

The pro forma amounts above are not indicative of future results as options generally vest over three years, excluding a grant of 1,945,061 options in March 1999 of which one half vested in 1999 (and are reflected as compensation expense in the above table over this period). Additional awards in future years are anticipated.

Stock options granted in 2000 had an estimated weighted-average fair value of \$16.83 per option (1999 – \$10.50 per option; 1998 – \$14.21 per option). All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price.

The estimated fair value of stock options issued was determined using the Black-Scholes model using the following weighted average assumptions:

	2000	1999	1998
Risk-free interest rate (%)	6.2	5.3	5.4
Estimated hold period prior to exercise (years)	5.4	5.4	5.6
Volatility in the price of the Company's common shares (%)	35	32	28

The Company has not paid dividends since 1991; no future dividend payments were assumed in estimating the fair value of the options.

#### Changes in Accounting Standards

In June 1998, the United States Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* (as amended by SFAS No. 137 and 138). SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met, including formal documentation requirements. The standard must be applied prospectively.



The Company adopted the standard on January 1, 2001. As permitted by the standard, the Company plans to apply the standard to only those hybrid instruments that were issued, acquired or substantively modified after December 31, 1998. The Company has not quantified all effects of adopting the standard however, the statement could increase volatility in earnings and other comprehensive income. In addition, management has not designated any of the currently held financial instruments as hedges for US GAAP purposes.

If the statement were required to be applied to financial instruments and qualifying hybrid instruments in place at December 31, 2000, approximately \$100 million of additional net liabilities would be recorded on the balance sheet, representing the fair value of those instruments not currently recognized for accounting purposes. As none of these instruments have been designated as hedges, a \$100 million charge to net income will be recorded upon adoption of the standard. In addition, future changes in the fair values of these instruments will be recorded in earnings for the period. Due to the volatility associated with the fair values of these instruments, it is not practicable to estimate the impact to future net income for the year ending 2001.

#### Summary US\$ Information

Unless otherwise noted, all amounts in the Consolidated Financial Statements, including Accounting Principles Generally Accepted in the United States above, are reported in millions of Canadian dollars. The following information reflects summary financial information prepared in accordance with US GAAP translated from Canadian dollars to US dollars at the average exchange rate prevailing in the respective year. The US dollar amounts below are approximations only and are not indicative of the Company's actual financial results had US dollars been used as the reporting currency. For example, depreciation, depletion and amortization expense is translated in each year using the average exchange rate in that year, which may not reflect the prevailing exchange rates when the capital assets were acquired.

US\$ million (except as noted)	2000	1999	1998
Total revenue	2,685.4	1,329.2	924.0
Cash flow	1,597.3	737.7	425.4
EBITDAX <sup>1</sup>	1,909.8	974.8	507.4
Net income (loss)	513.5	204.7	(317.2)
Net income (loss) per common share (US\$/share)	3.73	1.64	(2.83)
Average exchange rate (US\$/C\$)	0.6732	0.6731	0.6741

1 Earnings before interest, preferred security charges, income taxes, depreciation, depletion and amortization, impairment writedowns, exploration and dry hole expense.



## SUPPLEMENTARY OIL AND GAS INFORMATION

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(unaudited)

The supplemental data on the Company's oil and gas activities contained on pages 59 to 61 and pages 67 and 68 were prepared in accordance with the FASB's SFAS No. 69: Disclosures About Oil and Gas Producing Activities. Activities not directly associated with conventional crude oil and natural gas production, including synthetic oil operations, are excluded from all aspects of this supplementary oil and gas information.

### Results of Operations from Oil and Gas Producing Activities

Years ended December 31 (millions of Canadian dollars)		Canada	North Sea	Indonesia	Sudan	Other	Total
<b>2000</b>	Net oil and gas revenue derived from proved reserves <sup>1</sup>	<b>1,527.4</b>	<b>1,670.5</b>	<b>403.3</b>	<b>337.0</b>	—	<b>3,938.2</b>
	Less: Production costs	<b>256.4</b>	<b>434.6</b>	<b>55.6</b>	<b>63.8</b>	—	<b>810.4</b>
	Exploration and dry hole expense	<b>83.0</b>	<b>28.0</b>	<b>23.6</b>	<b>11.5</b>	<b>30.8</b>	<b>176.9</b>
	Depreciation, depletion and amortization	<b>462.2</b>	<b>512.3</b>	<b>83.1</b>	<b>79.3</b>	<b>0.1</b>	<b>1,137.0</b>
	Tax expense (recovery)	<b>336.1</b>	<b>301.5</b>	<b>125.9</b>	<b>56.2</b>	<b>(13.7)</b>	<b>806.0</b>
	Results of operations	<b>389.7</b>	<b>394.1</b>	<b>115.1</b>	<b>126.2</b>	<b>(17.2)</b>	<b>1,007.9</b>
1999	Net oil and gas revenue derived from proved reserves <sup>1</sup>	843.7	719.7	264.6	103.5	—	1,931.5
	Less: Production costs	204.2	296.1	68.3	22.4	—	591.0
	Exploration and dry hole expense	52.5	34.8	9.4	13.6	19.8	130.1
	Depreciation, depletion and amortization	366.2	292.2	71.8	23.2	0.2	753.6
	Tax expense (recovery)	102.2	66.2	61.9	13.4	(7.6)	236.1
	Results of operations	118.6	30.4	53.2	30.9	(12.4)	220.7
1998	Net oil and gas revenue derived from proved reserves <sup>1</sup>	652.6	549.1	136.0	—	—	1,337.7
	Less: Production costs	189.1	320.3	60.3	—	—	569.7
	Exploration and dry hole expense	62.3	85.8	13.9	2.5	27.5	192.0
	Depreciation, depletion and amortization	294.0	498.7	54.8	—	0.2	847.7
	Tax expense (recovery)	50.2	(64.2)	7.0	(0.8)	(12.1)	(19.9)
	Results of operations	57.0	(291.5)	—	(1.7)	(15.6)	(251.8)

1 Net oil and gas revenue derived from proved reserves is net of applicable royalties.

### Capitalized Costs Related to Oil and Gas Activities

As at December 31 (millions of Canadian dollars)		Canada	North Sea	Indonesia	Sudan	Other	Total
<b>2000</b>	Proved properties	<b>4,782.4</b>	<b>3,728.2</b>	<b>759.2</b>	<b>770.2</b>	<b>7.3</b>	<b>10,047.3</b>
	Unproved properties	<b>363.3</b>	<b>226.5</b>	<b>41.6</b>	<b>12.4</b>	<b>86.6</b>	<b>730.4</b>
	Incomplete wells and facilities	<b>11.7</b>	<b>5.5</b>	<b>2.2</b>	<b>26.4</b>	<b>0.2</b>	<b>46.0</b>
		<b>5,157.4</b>	<b>3,960.2</b>	<b>803.0</b>	<b>809.0</b>	<b>94.1</b>	<b>10,823.7</b>
	Less: accumulated depreciation, depletion and amortization	<b>1,514.5</b>	<b>1,476.3</b>	<b>320.9</b>	<b>94.7</b>	—	<b>3,406.4</b>
	Net capitalized costs	<b>3,642.9</b>	<b>2,483.9</b>	<b>482.1</b>	<b>714.3</b>	<b>94.1</b>	<b>7,417.3</b>
1999	Proved properties	4,202.8	3,250.1	720.9	731.7	5.2	8,910.7
	Unproved properties	322.3	59.7	36.7	6.7	61.8	487.2
	Incomplete wells and facilities	8.7	1.6	0.2	12.1	6.7	29.3
		4,533.8	3,311.4	757.8	750.5	73.7	9,427.2
	Less: accumulated depreciation, depletion and amortization	1,154.4	1,093.8	241.7	21.6	—	2,511.5
	Net capitalized costs	3,379.4	2,217.6	516.1	728.9	73.7	6,915.7
1998	Proved properties	2,726.2	2,221.5	745.1	—	1.4	5,694.2
	Unproved properties	514.2	255.8	7.6	1.9	50.0	829.5
	Incomplete wells and facilities	—	3.8	0.9	522.0	—	526.7
		3,240.4	2,481.1	753.6	523.9	51.4	7,050.4
	Less: accumulated depreciation, depletion and amortization	991.4	944.0	173.9	—	—	2,109.3
	Net capitalized costs	2,249.0	1,537.1	579.7	523.9	51.4	4,941.1



## Costs Incurred in Oil and Gas Activities

Years ended December 31 (millions of Canadian dollars)		Canada	North Sea	Indonesia	Sudan	Other	Total
<b>2000</b>	Property acquisition costs						
	Proved	<b>197.1</b>	<b>70.7</b>	—	—	—	<b>267.8</b>
	Unproved	<b>68.6</b>	<b>180.7</b>	—	—	—	<b>249.3</b>
	Exploration costs	<b>183.8</b>	<b>45.6</b>	<b>30.1</b>	<b>33.1</b>	<b>45.6</b>	<b>338.2</b>
	Development costs	<b>426.1</b>	<b>257.2</b>	<b>38.7</b>	<b>36.8</b>	<b>5.5</b>	<b>764.3</b>
	Total costs incurred	<b>875.6</b>	<b>554.2</b>	<b>68.8</b>	<b>69.9</b>	<b>51.1</b>	<b>1,619.6</b>
<b>1999</b>	Property acquisition costs						
	Proved	1,162.8	683.3	—	—	—	1,801.1
	Unproved	86.3	33.1	—	—	—	119.4
	Exploration costs	81.9	39.2	18.1	35.8	38.4	213.4
	Development costs	208.2	256.3	36.1	245.1	3.8	749.5
	Total costs incurred	1,539.2	966.9	54.2	280.9	42.2	2,883.4
<b>1998</b>	Property acquisition costs						
	Proved	107.1	12.1	—	342.8	—	462.0
	Unproved	20.8	10.8	0.4	35.0	0.1	67.1
	Exploration costs	106.1	101.9	32.4	4.3	47.4	292.1
	Development costs	271.0	263.8	146.7	144.4	—	825.9
	Total costs incurred	505.0	388.6	179.5	526.5	47.5	1,647.1

## Standardized Measure of Discounted Future Net Cash Flows from Proved Reserves

Future net cash flows were calculated by applying the respective year-end prices to the Company's estimated future production of proved reserves and deducting estimates of future development and production costs and income taxes. Future development and production costs have been estimated based on the assumed continuation of cost levels and economic conditions existing at each year end. Similarly, future income taxes have been estimated based on statutory tax rates enacted at year end. The present values of the estimated future cash flows were determined by applying a 10% discount rate prescribed by the FASB.

In order to increase the comparability between companies, the standardized measure of discounted future net cash flows necessarily employs uniform assumptions that do not necessarily reflect management's best estimate of future events and anticipated outcomes. Accordingly, the Company does not believe that the standardized measure of discounted future net cash flows will be representative of actual future net cash flows and should not be considered to represent the fair market value of the oil and gas properties. Actual future net cash flows will differ significantly from those estimated due to, but not limited to, the following:

- ◆ production rates will differ from those estimated both in terms of timing and amount. For example, future production may include significant additional volumes from unproved reserves;
- ◆ future prices and economic conditions will differ from those at year end. For example, changes in prices increased the discounted future net cash flows by \$9.0 billion in 2000;
- ◆ price differentials will differ from those at year end. At year end crude oil differentials widened significantly from historical averages. WTI at year end was US\$26.80/bbl compared with the Brent price of US\$22.75/bbl and Minas price of US\$22.53/bbl. At December 31, 1999, WTI was US\$25.60/bbl, Brent was US\$25.07/bbl and Minas was US\$23.70/bbl.
- ◆ future production and development costs will be determined by future events and will differ from those at year end; and
- ◆ estimated income taxes will differ in terms of amounts and timing dependent on the above factors, changes in enacted rates and the impact of future expenditures on unproved properties.

The following standardized measure of discounted future net cash flows was prepared using the following prices:

	2000	1999	1998
Crude oil and liquids (\$/bbl)			
Canada	<b>30.33</b>	30.62	13.61
North Sea	<b>33.14</b>	35.79	16.34
Indonesia	<b>33.61</b>	34.17	15.73
Sudan	<b>27.59</b>	33.57	14.90
Other	<b>33.29</b>	36.00	16.24
	<b>31.04</b>	33.42	14.85
Natural Gas (\$/mcf)			
Canada	<b>13.61</b>	2.61	2.50
North Sea	<b>5.19</b>	2.97	3.82
Indonesia	<b>3.80</b>	3.95	1.19
	<b>10.57</b>	2.94	2.39



## Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of Canadian dollars)		Canada	North Sea	Indonesia	Sudan	Other	Total
<b>2000</b>	Future cash inflows <sup>1</sup>	<b>28,716</b>	<b>9,448</b>	<b>2,640</b>	<b>2,726</b>	<b>408</b>	<b>43,938</b>
	Future costs						
	Production	(2,711)	(3,423)	(485)	(724)	(62)	(7,405)
	Development and site restoration	(292)	(1,403)	(160)	(218)	(46)	(2,119)
	Future net inflows before income taxes	<b>25,713</b>	<b>4,622</b>	<b>1,995</b>	<b>1,784</b>	<b>300</b>	<b>34,414</b>
	Future income and production revenue taxes	(10,663)	(2,108)	(852)	(362)	(80)	(14,065)
	Future net cash flows	<b>15,050</b>	<b>2,514</b>	<b>1,143</b>	<b>1,422</b>	<b>220</b>	<b>20,349</b>
	10% discount factor	(6,136)	(481)	(507)	(515)	(118)	(7,757)
	Discounted future net cash flows	<b>8,914</b>	<b>2,033</b>	<b>636</b>	<b>907</b>	<b>102</b>	<b>12,592</b>
<b>1999</b>	Future cash inflows <sup>1</sup>	9,713	8,033	2,621	2,622	259	23,248
	Future costs						
	Production	(2,044)	(2,767)	(498)	(580)	(41)	(5,930)
	Development and site restoration	(390)	(1,064)	(143)	(68)	(21)	(1,686)
	Future net inflows before income taxes	7,279	4,202	1,980	1,974	197	15,632
	Future income and production revenue taxes	(2,471)	(1,635)	(733)	(431)	(67)	(5,337)
	Future net cash flows	4,808	2,567	1,247	1,543	130	10,295
	10% discount factor	(1,730)	(626)	(382)	(413)	(68)	(3,219)
	Discounted future net cash flows	3,078	1,941	865	1,130	62	7,076
<b>1998</b>	Future cash inflows <sup>1</sup>	5,861	3,203	1,160	1,248	99	11,571
	Future costs						
	Production	(1,664)	(1,464)	(459)	(388)	(39)	(4,014)
	Development and site restoration	(303)	(781)	(149)	(162)	(16)	(1,411)
	Future net inflows before income taxes	3,894	958	552	698	44	6,146
	Future income and production revenue taxes	(1,042)	(215)	(79)	(116)	—	(1,452)
	Future net cash flows	2,852	743	473	582	44	4,694
	10% discount factor	(1,013)	(247)	(184)	(255)	(26)	(1,725)
	Discounted future net cash flows	1,839	496	289	327	18	2,969

<sup>1</sup> Future cash inflows are revenues net of royalties.

## Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of Canadian dollars)	2000	1999	1998
Sales of oil and gas produced, net of production costs	(3,128)	(1,340)	(768)
Net change in prices	8,957	3,997	(1,089)
Net change in production costs	(505)	(221)	232
Net change in future development and site restoration costs	(206)	18	(129)
Development costs incurred during the year	400	489	438
Extensions, discoveries and improved recovery	2,809	1,206	611
Revisions of previous reserve estimates	596	359	46
Net purchases and sales of reserves in place	135	1,951	105
Accretion of discount	1,057	389	416
Net change in taxes	(4,330)	(2,367)	(25)
Other	(269)	(374)	(27)
Net change	5,516	4,107	(190)
Balance, beginning of year	7,076	2,969	3,159
Balance, end of year	12,592	7,076	2,969



## Five Year Operations Summary

Years ended December 31

	2000	1999	1998	1997	1996
<b>Daily Average Production</b> (gross bbls/d except as noted)					
Crude oil					
Canada	51,005	44,806	45,103	40,627	34,169
North Sea	109,096	57,267	54,988	48,065	30,675
Indonesia	19,627	28,286	31,684	28,458	22,621
Sudan	45,869	11,726	—	—	—
Natural gas liquids					
Canada	12,829	10,918	9,818	8,054	7,598
North Sea	2,806	1,989	2,492	2,437	2,363
Indonesia	579	566	—	—	—
Synthetic oil (Canada)	2,540	2,765	2,664	2,536	2,534
Total oil and liquids	244,351	158,323	146,749	130,177	99,960
Natural gas (mmcf/d)					
Canada	755	681	631	558	557
North Sea	122	115	104	100	90
Indonesia	111	108	13	—	—
Total natural gas	988	904	748	658	647
Total (mboe/d)	409	309	271	240	208
<b>Average Unit Prices</b> <sup>1</sup> (\$/bbl except as noted)					
Crude oil					
Canada	38.29	24.82	15.87	22.68	25.31
North Sea	40.51	28.70	18.69	26.25	28.41
Indonesia	42.50	26.20	18.01	26.27	27.83
Sudan	38.52	31.24	—	—	—
Natural gas liquids					
Canada	35.03	19.84	15.07	22.39	21.13
North Sea	35.15	18.42	15.22	24.19	21.41
Indonesia	42.66	26.70	—	—	—
Synthetic oil (Canada)	44.41	28.01	20.53	27.78	29.09
Total oil and liquids	39.53	26.58	17.41	24.89	26.52
Natural gas (\$/mcf)					
Canada	4.66	2.54	2.02	1.98	1.67
North Sea	3.58	3.06	3.90	3.88	3.35
Indonesia	5.64	3.18	1.65	—	—
Total natural gas	4.63	2.68	2.26	2.27	1.91
Total (\$/boe)	34.80	21.48	15.66	19.73	18.70

<sup>1</sup> Average unit prices are before hedging activities.



## Five Year Financial Summary

Years ended December 31

(millions of Canadian dollars unless otherwise stated)

	2000	1999	1998	1997	1996
<b>Balance Sheets</b>					
Current assets	1,042.0	730.1	271.7	470.7	361.7
Other assets	133.1	95.0	188.7	119.2	63.1
Property, plant and equipment	7,500.6	6,983.0	4,996.8	4,441.0	3,332.6
Total assets	8,675.7	7,808.1	5,457.2	5,030.9	3,757.4
Current liabilities	1,311.9	1,060.2	576.2	497.3	337.7
Deferred credits and other liabilities	1,997.3	967.7	596.3	608.2	427.0
Long-term debt	1,702.9	2,157.2	2,070.7	1,738.8	898.7
Shareholders' equity	3,663.6	3,623.0	2,214.0	2,186.6	2,094.0
Total liabilities and shareholders' equity	8,675.7	7,808.1	5,457.2	5,030.9	3,757.4
<b>Results of Operations</b>					
Revenue	3,988.9	1,974.8	1,370.7	1,430.0	1,212.8
Expenses	2,403.0	1,609.3	1,683.0	1,222.7	947.8
Income (loss) before taxes	1,585.9	365.5	(312.3)	207.3	265.0
Taxes (recovery)	679.6	188.7	(53.5)	130.2	170.1
Net income (loss)	906.3	176.8	(258.8)	77.1	94.9
Preferred security charges, net of tax	22.5	13.3	—	—	—
Net income (loss) available to common shareholders	883.8	163.5	(258.8)	77.1	94.9
Cash flow	2,412.8	1,110.8	631.1	797.4	697.4
Capital expenditures	1,625.2	1,494.7	1,224.1	1,066.1	765.3
Proceeds on dispositions	(81.0)	(132.5)	(157.2)	(48.8)	(40.0)
Net capital expenditures	1,544.2	1,362.2	1,066.9	1,017.3	725.3
Per common share (dollars)					
Cash flow	17.51	8.91	5.64	7.29	6.71
Net income (loss) available to common shareholders	6.41	1.31	(2.31)	0.70	0.91
Diluted net income (loss) available to common shareholders	6.32	1.30	(2.31)	0.69	0.90
Diluted cash flow	17.25	8.85	5.62	7.18	6.65

## Consolidated Financial Ratios

The following financial ratios are provided in connection with the Company's continuous offering of medium term notes pursuant to the short form prospectus dated April 7, 2000 and a prospectus supplement dated April 10, 2000.

The asset coverage ratios are calculated as at December 31, 2000. The interest coverage ratios are for the 12-month period then ended.

	2000
Interest coverage (times)	
Income	10.37 <sup>1</sup>
Cash flow	19.01 <sup>2</sup>
Asset coverage (times)	
Before deduction of future income taxes and deferred credits	4.32 <sup>3</sup>
After deduction of future income taxes and deferred credits	3.15 <sup>4</sup>

1 Net income plus income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

2 Cash flow plus current income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

3 Total assets minus current liabilities; divided by long-term debt.

4 Total assets minus current liabilities and long-term liabilities excluding long-term debt; divided by long-term debt.



## Selected Quarterly Financial Data

(millions of Canadian dollars unless otherwise stated)		Three months ended				
		Total Year	Dec 31	Sep 30	Jun 30	Mar 31
<b>2000</b>	Total revenue	<b>3,988.9</b>	<b>1,128.8</b>	<b>975.3</b>	<b>961.9</b>	<b>922.9</b>
	Net income	<b>906.3</b>	<b>268.4</b>	<b>217.8</b>	<b>213.9</b>	<b>206.2</b>
	Net income available to common shareholders	<b>883.8</b>	<b>262.6</b>	<b>212.2</b>	<b>208.3</b>	<b>200.7</b>
	Cash flow	<b>2,412.8</b>	<b>689.4</b>	<b>579.3</b>	<b>572.7</b>	<b>571.4</b>
	Total assets	<b>8,675.7</b>	<b>8,675.7</b>	<b>8,460.9</b>	<b>8,412.0</b>	<b>8,243.6</b>
	Total long-term liabilities	<b>3,700.2</b>	<b>3,700.2</b>	<b>3,805.5</b>	<b>3,991.9</b>	<b>3,626.0</b>
	Capital expenditures					
	Exploration	<b>406.8</b>	<b>142.0</b>	<b>94.9</b>	<b>81.4</b>	<b>88.5</b>
	Development	<b>772.2</b>	<b>255.3</b>	<b>169.6</b>	<b>197.1</b>	<b>150.2</b>
	Acquisitions	<b>430.8</b>	<b>(18.1)</b>	<b>144.5</b>	<b>3.5</b>	<b>300.9</b>
	Per common share (dollars)					
	Net income available to common shareholders	<b>6.41</b>	<b>1.93</b>	<b>1.53</b>	<b>1.51</b>	<b>1.45</b>
	Diluted net income available to common shareholders	<b>6.32</b>	<b>1.90</b>	<b>1.51</b>	<b>1.48</b>	<b>1.44</b>
	Cash flow	<b>17.51</b>	<b>5.06</b>	<b>4.18</b>	<b>4.14</b>	<b>4.13</b>
	Daily average production					
	Oil and liquids (bbls/d)	<b>244,351</b>	<b>248,886</b>	<b>237,634</b>	<b>252,372</b>	<b>238,572</b>
	Natural gas (mmcf/d)	<b>988</b>	<b>997</b>	<b>956</b>	<b>978</b>	<b>1,025</b>
	Total (mboe/d)	<b>409</b>	<b>415</b>	<b>397</b>	<b>415</b>	<b>409</b>
<b>1999</b>	Total revenue	1,974.8	701.7	498.2	415.6	359.3
	Net income	176.8	92.2	60.2	20.4	4.0
	Net income available to common shareholders	163.5	86.6	55.6	17.3	4.0
	Cash flow	1,110.8	418.9	280.8	225.5	185.6
	Total assets	7,808.1	7,808.1	7,346.6	5,795.0	5,795.0
	Total long-term liabilities	3,124.9	3,124.9	3,170.4	2,667.8	2,682.1
	Capital expenditures					
	Exploration	237.7	72.4	52.4	52.4	60.5
	Development	758.3	182.5	170.2	171.9	233.7
	Acquisitions	481.7	437.6	26.2	9.6	8.3
	Per common share (dollars)					
	Net income available to common shareholders	1.31	0.63	0.45	0.15	0.03
	Diluted net income available to common shareholders	1.30	0.62	0.45	0.14	0.03
	Cash flow	8.91	3.03	2.30	1.89	1.56
	Daily average production					
	Oil and liquids (bbls/d)	158,323	200,347	149,261	142,045	141,086
	Natural gas (mmcf/d)	904	1,013	844	862	898
	Total (mboe/d)	309	369	290	286	291



## Selected Quarterly Financial Data

### Product Netbacks

Product Netbacks		2000					1999				
		Total Year	Three months ended				Total Year	Three months ended			
			Dec 31	Sep 30	Jun 30	Mar 31		Dec 31	Sep 30	Jun 30	Mar 31
Canada	Oil and liquids (\$/bbl)										
	Sales price	37.64	38.52	39.71	35.86	36.36	23.85	30.61	26.95	20.61	15.39
	Hedging	3.44	4.72	3.85	3.52	1.58	1.69	2.79	1.75	0.93	0.97
	Royalties	8.74	8.84	9.38	8.48	8.22	4.97	6.71	5.97	3.84	2.88
	Operating costs	4.17	4.85	4.12	3.85	3.84	3.61	3.88	3.92	3.28	3.26
		21.29	20.11	22.36	20.01	22.72	13.58	17.23	15.31	12.56	8.28
	Natural Gas (\$/mcf)										
	Sales price	4.66	7.36	4.40	3.96	2.81	2.54	2.85	2.68	2.34	2.25
	Hedging	0.26	0.51	0.29	0.20	0.02	0.09	0.17	0.30	0.06	(0.16)
	Royalties	1.07	1.79	1.08	0.88	0.52	0.48	0.68	0.56	0.27	0.38
	Operating costs	0.56	0.62	0.66	0.49	0.48	0.51	0.56	0.50	0.49	0.49
		2.77	4.44	2.37	2.39	1.79	1.46	1.44	1.32	1.52	1.54
North Sea	Oil and liquids (\$/bbl)										
	Sales price	40.38	41.53	42.28	39.56	38.23	28.35	37.04	33.30	23.46	17.39
	Hedging	3.44	4.73	3.94	3.46	1.58	1.39	1.99	1.62	0.87	0.97
	Royalties	1.57	1.62	1.73	1.73	1.18	0.58	0.94	0.53	0.43	0.35
	Operating costs	9.13	9.44	9.05	8.82	9.24	11.58	12.47	11.80	11.80	9.94
		26.24	25.74	27.56	25.55	26.23	14.80	21.64	19.35	10.36	6.13
	Natural Gas (\$/mcf)										
	Sales price	3.58	4.59	3.67	3.07	3.13	3.06	2.88	2.52	2.81	3.77
	Hedging	—	—	—	—	—	—	—	—	—	—
	Royalties	0.14	0.25	0.12	0.12	0.08	0.10	0.25	0.01	0.07	0.04
	Operating costs	0.57	0.67	0.80	0.30	0.57	0.76	0.65	0.98	0.96	0.57
		2.87	3.67	2.75	2.65	2.48	2.20	1.98	1.53	1.78	3.16
Indonesia	Oil and liquids (\$/bbl)										
	Sales price	42.50	44.17	46.24	42.14	37.71	26.20	34.75	29.90	23.76	17.25
	Hedging	3.44	4.82	3.91	3.53	1.58	1.39	2.19	1.61	0.86	0.97
	Royalties	13.36	13.92	14.60	13.38	11.63	10.63	15.52	12.00	8.96	6.47
	Operating costs	5.40	5.90	5.53	4.71	5.49	4.98	4.27	5.56	5.30	4.77
		20.30	19.53	22.20	20.52	19.01	9.20	12.77	10.73	8.64	5.04
	Natural Gas (\$/mcf)										
	Sales price	5.64	6.01	5.74	5.77	5.04	3.18	4.38	3.51	2.60	1.71
	Hedging	0.04	0.03	0.05	0.05	0.03	0.09	0.08	0.09	0.09	0.10
	Royalties	0.34	0.28	0.57	0.27	0.24	0.17	0.22	0.19	0.15	0.11
	Operating costs	0.39	0.42	0.40	0.35	0.38	0.40	0.12	0.40	0.43	0.71
		4.87	5.28	4.72	5.10	4.39	2.52	3.96	2.83	1.93	0.79
Sudan	Oil (\$/bbl)										
	Sales price	38.52	32.71	44.62	40.61	36.25	31.24	31.35	30.89	—	—
	Hedging	3.44	4.63	3.82	3.45	1.58	—	—	—	—	—
	Royalties	15.00	12.66	20.17	15.86	11.07	7.05	7.18	6.63	—	—
	Operating costs	3.80	4.15	3.75	3.71	3.55	5.24	5.38	4.77	—	—
		16.28	11.27	16.88	17.59	20.05	18.95	18.79	19.49	—	—
Total Company	Oil and liquids (\$/bbl)										
	Sales price	39.48	39.19	42.37	39.03	37.33	26.55	33.56	30.16	22.48	16.58
	Hedging	3.44	4.71	3.89	3.48	1.58	1.39	1.92	1.55	0.89	0.97
	Royalties	6.99	6.68	8.54	7.03	5.74	4.50	5.99	5.19	3.44	2.68
	Operating costs	6.50	6.90	6.36	6.27	6.46	7.02	7.21	7.22	7.35	6.21
		22.55	20.90	23.58	22.25	23.55	13.64	18.44	16.20	10.80	6.72
	Natural gas (\$/mcf)										
	Sales price	4.63	6.90	4.48	4.05	3.11	2.68	3.02	2.80	2.45	2.43
	Hedging	0.20	0.40	0.23	0.16	0.02	0.08	0.14	0.24	0.06	(0.11)
	Royalties	0.88	1.45	0.92	0.71	0.43	0.40	0.58	0.45	0.23	0.30
	Operating costs	0.54	0.60	0.64	0.45	0.48	0.53	0.52	0.54	0.54	0.53
		3.01	4.45	2.69	2.73	2.18	1.67	1.78	1.57	1.62	1.71

Netbacks do not include synthetic oil or pipeline operations.



## Continuity of Proved Reserves

### Conventional Crude Oil and Natural Gas Liquids

(mmbbls)	Canada <sup>1</sup>		North Sea	
	Gross <sup>5</sup>	Net <sup>6</sup>	Gross <sup>5</sup>	Net <sup>6</sup>
<b>Total Proved</b>				
Proved reserves at December 31, 1997	155.4	126.0	103.8	101.3
Discoveries, additions and extensions	19.3	16.5	21.4	20.8
Dispositions and acquisitions	(3.9)	(2.9)	3.2	3.2
Net revisions <sup>7</sup>	5.9	9.4	(0.4)	—
Production during the year	(20.0)	(16.4)	(21.0)	(20.6)
Proved reserves at December 31, 1998	156.7	132.6	107.0	104.7
Discoveries, additions and extensions	11.4	9.4	30.9	30.3
Dispositions and acquisitions	34.1	28.0	77.2	73.6
Net revisions <sup>7</sup>	7.6	4.3	2.9	(0.8)
Production during the year	(20.3)	(16.9)	(21.7)	(20.6)
Proved reserves at December 31, 1999	189.5	157.4	196.3	187.2
<b>Discoveries, additions and extensions</b>	<b>24.0</b>	<b>20.2</b>	<b>21.3</b>	<b>20.2</b>
<b>Dispositions and acquisitions</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>57.6</b>	<b>54.7</b>
<b>Net revisions<sup>7</sup></b>	<b>9.5</b>	<b>8.0</b>	<b>11.8</b>	<b>10.6</b>
<b>Production during the year</b>	<b>(23.3)</b>	<b>(19.4)</b>	<b>(41.0)</b>	<b>(38.9)</b>
<b>December 31, 2000</b>	<b>199.3</b>	<b>165.9</b>	<b>246.0</b>	<b>233.8</b>
<b>Proved Developed</b>				
December 31, 1997	149.9	121.9	75.6	73.5
December 31, 1998	153.0	129.9	80.4	78.5
December 31, 1999	182.5	151.9	158.0	150.7
<b>December 31, 2000</b>	<b>192.7</b>	<b>160.9</b>	<b>182.4</b>	<b>173.3</b>

### Natural Gas (bcf)

<b>Total Proved</b>				
Proved reserves at December 31, 1997	1,846.7	1,585.6	364.3	355.1
Discoveries, additions and extensions	256.8	209.8	36.0	35.8
Dispositions and acquisitions	(51.7)	(50.7)	—	—
Net revisions <sup>7</sup>	14.5	(32.8)	21.4	27.8
Production during the year	(230.9)	(193.6)	(37.8)	(37.4)
Proved reserves at December 31, 1998	1,835.4	1,518.3	383.9	381.3
Discoveries, additions and extensions	234.7	186.4	10.1	10.1
Dispositions and acquisitions	366.3	291.0	2.3	2.2
Net revisions <sup>7</sup>	(18.2)	(73.2)	6.0	(1.2)
Production during the year	(249.0)	(198.1)	(41.9)	(40.8)
Proved reserves at December 31, 1999	2,169.2	1,724.4	360.4	351.6
<b>Discoveries, additions and extensions</b>	<b>334.4</b>	<b>264.4</b>	<b>11.2</b>	<b>10.6</b>
<b>Dispositions and acquisitions</b>	<b>(33.2)</b>	<b>(25.9)</b>	<b>(20.7)</b>	<b>(19.7)</b>
<b>Net revisions<sup>7</sup></b>	<b>23.4</b>	<b>14.5</b>	<b>(20.4)</b>	<b>(27.5)</b>
<b>Production during the year</b>	<b>(277.0)</b>	<b>(220.3)</b>	<b>(44.5)</b>	<b>(42.4)</b>
<b>Proved reserves at December 31, 2000</b>	<b>2,216.8</b>	<b>1,757.1</b>	<b>286.0</b>	<b>272.6</b>
<b>Proved Developed</b>				
December 31, 1997	1,631.2	1,400.5	330.6	322.2
December 31, 1998	1,648.4	1,364.7	315.5	313.6
December 31, 1999	1,895.5	1,508.4	339.0	330.7
<b>December 31, 2000</b>	<b>1,972.3</b>	<b>1,568.4</b>	<b>227.0</b>	<b>215.9</b>

1 Canadian proved reserves exclude synthetic crude oil reserves of (gross/net): December 31, 1998 — 26.7/22.7 mmbbls; December 31, 1999 — 32.6/27.8 mmbbls; December 31, 2000 — 43.0/36.9 mmbbls.

2 Interests of Pertamina, other than working interests, are accounted for as royalties. Pertamina royalties are reflected in net reserves using effective rates over the life of the contract.

3 Interests of the Government of Sudan and its agencies ("Sudanese"), other than working interests, are accounted for as royalties. Sudanese royalties are reflected in net reserves using effective rates over the life of the contract.



Indonesia <sup>2</sup>		Sudan <sup>3</sup>		Algeria <sup>4</sup>		Total	
Gross <sup>5</sup>	Net <sup>6</sup>	Gross <sup>5</sup>	Net <sup>6</sup>	Gross <sup>5</sup>	Net <sup>6</sup>	Gross <sup>5</sup>	Net <sup>6</sup>
41.1	26.7	—	—	—	—	300.3	254.0
9.7	6.7	32.9	26.4	—	—	83.3	70.4
—	—	68.0	54.5	—	—	67.3	54.8
0.7	2.9	—	—	12.0	6.1	18.2	18.4
(11.6)	(7.5)	—	—	—	—	(52.6)	(44.5)
39.9	28.8	100.9	80.9	12.0	6.1	416.5	353.1
3.5	2.5	35.0	24.5	—	—	80.8	66.7
—	—	—	—	—	—	111.3	101.6
(5.6)	(3.7)	0.4	(10.0)	—	0.7	5.3	(9.5)
(10.5)	(7.6)	(4.3)	(3.0)	—	—	(56.8)	(48.1)
27.3	20.0	132.0	92.4	12.0	6.8	557.1	463.8
<b>5.8</b>	<b>4.1</b>	<b>13.1</b>	<b>8.6</b>	<b>8.3</b>	<b>5.0</b>	<b>72.5</b>	<b>58.1</b>
—	—	—	—	—	—	<b>57.2</b>	<b>54.4</b>
<b>(0.2)</b>	<b>(1.0)</b>	<b>12.4</b>	<b>2.4</b>	—	<b>0.4</b>	<b>33.5</b>	<b>20.4</b>
<b>(7.4)</b>	<b>(5.2)</b>	<b>(16.8)</b>	<b>(11.0)</b>	—	—	<b>(88.5)</b>	<b>(74.5)</b>
<b>25.5</b>	<b>17.9</b>	<b>140.7</b>	<b>92.4</b>	<b>20.3</b>	<b>12.2</b>	<b>631.8</b>	<b>522.2</b>
34.9	21.6	—	—	—	—	260.4	217.0
37.8	27.0	—	—	—	—	271.2	235.4
23.9	17.3	132.0	92.4	—	—	496.4	412.3
<b>21.6</b>	<b>15.2</b>	<b>117.9</b>	<b>77.4</b>	—	—	<b>514.6</b>	<b>426.8</b>
452.5	390.8	—	—	—	—	2,663.5	2,331.5
103.2	91.0	—	—	—	—	396.0	336.6
—	—	—	—	—	—	(51.7)	(50.7)
64.3	65.0	—	—	—	—	100.2	60.0
(4.9)	(4.3)	—	—	—	—	(273.6)	(235.3)
615.1	542.5	—	—	—	—	2,834.4	2,442.1
65.8	51.1	—	—	—	—	310.6	247.6
—	—	—	—	—	—	368.6	293.2
50.0	(26.4)	—	—	—	—	37.8	(100.8)
(39.5)	(30.6)	—	—	—	—	(330.4)	(269.5)
691.4	536.6	—	—	—	—	3,221.0	2,612.6
<b>126.7</b>	<b>89.0</b>	—	—	—	—	<b>472.3</b>	<b>364.0</b>
—	—	—	—	—	—	<b>(53.9)</b>	<b>(45.6)</b>
<b>(8.0)</b>	<b>(56.9)</b>	—	—	—	—	<b>(5.0)</b>	<b>(69.9)</b>
<b>(40.6)</b>	<b>(28.5)</b>	—	—	—	—	<b>(362.1)</b>	<b>(291.2)</b>
<b>769.5</b>	<b>540.2</b>	—	—	—	—	<b>3,272.3</b>	<b>2,569.9</b>
—	—	—	—	—	—	1,961.8	1,722.7
338.4	298.4	—	—	—	—	2,302.3	1,976.7
210.5	163.3	—	—	—	—	2,445.0	2,002.4
<b>170.9</b>	<b>120.0</b>	—	—	—	—	<b>2,370.2</b>	<b>1,904.3</b>

4 Interests of the Government of Algeria and its agencies ("Algerian"), other than working interests, are accounted for as royalties. Algerian royalties are reflected in net reserves using effective rates over the life of the contract.

5 Gross reserves are the remaining reserves of Talisman, before deduction of estimated royalties.

6 Net reserves are the remaining reserves of Talisman, after deduction of estimated royalties.

7 Net revisions include revisions that reflect actual performance, reassessment of data and adjustments to cumulative production.



Proved and Probable Reserves<sup>1</sup>

	Canada	North Sea	Indonesia	Sudan	Other Countries <sup>2</sup>	Total
<b>Oil and Liquids (mmbbls)</b>						
Proved reserves at December 31, 1999	189.5	196.3	27.3	132.0	12.0	557.1
Discoveries, additions and extensions	18.2	19.0	1.1	0.5	—	38.8
Drilling revisions and transfers	5.8	2.3	4.7	12.6	8.3	33.7
Net purchase and sale of reserves	(0.4)	57.6	—	—	—	57.2
Non-drilling revisions and transfers	9.5	11.8	(0.2)	12.4	—	33.5
2000 production	(23.3)	(41.0)	(7.4)	(16.8)	—	(88.5)
<b>Proved reserves at December 31, 2000</b>	<b>199.3</b>	<b>246.0</b>	<b>25.5</b>	<b>140.7</b>	<b>20.3</b>	<b>631.8</b>
Probable reserves at December 31, 1999	94.1	90.5	15.1	64.7	41.5	305.9
Discoveries, additions and extensions	18.2	8.5	5.7	4.8	19.3	56.5
Drilling revisions and transfers	(4.9)	8.0	(4.1)	(5.2)	(6.0)	(12.2)
Net purchase and sale of reserves	(1.4)	36.4	—	—	—	35.0
Non-drilling revisions and transfers	(7.8)	6.8	(0.8)	2.7	(0.5)	0.4
<b>Probable reserves at December 31, 2000</b>	<b>98.2</b>	<b>150.2</b>	<b>15.9</b>	<b>67.0</b>	<b>54.3</b>	<b>385.6</b>
<b>Natural Gas (bcf)</b>						
Proved reserves at December 31, 1999	2,169.2	360.4	691.4	—	—	3,221.0
Discoveries, additions and extensions	305.6	9.7	126.7	—	—	442.0
Drilling revisions and transfers	28.8	1.5	—	—	—	30.3
Net purchase and sale of reserves	(33.2)	(20.7)	—	—	—	(53.9)
Non-drilling revisions and transfers	23.4	(20.4)	(8.0)	—	—	(5.0)
2000 production	(277.0)	(44.5)	(40.6)	—	—	(362.1)
<b>Proved reserves at December 31, 2000</b>	<b>2,216.8</b>	<b>286.0</b>	<b>769.5</b>	<b>—</b>	<b>—</b>	<b>3,272.3</b>
Probable reserves at December 31, 1999	1,250.0	87.8	284.0	—	27.3	1,649.1
Discoveries, additions and extensions	98.6	8.6	664.6	—	98.6	870.4
Drilling revisions and transfers	(47.0)	(1.5)	—	—	—	(48.5)
Net purchase and sale of reserves	(6.3)	(13.8)	—	—	—	(20.1)
Non-drilling revisions and transfers	(126.3)	(2.3)	5.2	—	29.2	(94.2)
<b>Probable reserves at December 31, 2000</b>	<b>1,169.0</b>	<b>78.8</b>	<b>953.8</b>	<b>—</b>	<b>155.1</b>	<b>2,356.7</b>
<b>BOE<sup>3</sup> (mmbbls)</b>						
Proved reserves at December 31, 1999	551.0	256.4	142.6	132.0	12.0	1,094.0
Discoveries, additions and extensions	69.1	20.6	22.2	0.5	—	112.4
Drilling revisions and transfers	10.6	2.5	4.7	12.6	8.3	38.7
Net purchase and sale of reserves	(6.0)	54.1	—	—	—	48.1
Non-drilling revisions and transfers	13.4	8.5	(1.5)	12.4	—	32.8
2000 production	(69.4)	(48.4)	(14.2)	(16.8)	—	(148.8)
<b>Proved reserves at December 31, 2000</b>	<b>568.7</b>	<b>293.7</b>	<b>153.8</b>	<b>140.7</b>	<b>20.3</b>	<b>1,177.2</b>
Probable reserves at December 31, 1999	302.4	105.2	62.5	64.7	46.0	580.8
Discoveries, additions and extensions	34.6	9.9	116.4	4.8	35.7	201.4
Drilling revisions and transfers	(12.7)	7.7	(4.1)	(5.2)	(6.0)	(20.3)
Net purchase and sale of reserves	(2.4)	34.1	—	—	—	31.7
Non-drilling revisions and transfers	(28.9)	6.5	0.1	2.7	4.5	(15.1)
<b>Probable reserves at December 31, 2000</b>	<b>293.0</b>	<b>163.4</b>	<b>174.9</b>	<b>67.0</b>	<b>80.2</b>	<b>778.5</b>

1 Gross reserves, excludes sulphur and synthetic oil.

2 Includes Algeria and Trinidad.

3 6 mcf of natural gas equals 1 boe.



## Historical Proved Reserves<sup>1</sup>

(consolidated)	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Oil and liquids (mmbbls)</b>									
Opening balance	39.8	40.5	95.0	167.8	167.9	225.9	300.3	416.5	557.1
Discoveries, additions and extensions	2.8	11.0	8.8	15.4	33.8	68.7	42.4	46.4	38.8
Drilling revisions and transfers	—	—	—	—	—	—	40.9	15.6	33.7
Net purchase and sales	0.3	53.8	69.9	0.9	35.6	29.0	67.3	111.3	57.2
Non-drilling revisions and transfers	3.6	(0.3)	12.2	11.2	24.3	23.2	18.2	24.1	33.5
Production	(6.0)	(10.0)	(18.1)	(27.4)	(35.7)	(46.5)	(52.6)	(56.8)	(88.5)
Closing balance	40.5	95.0	167.8	167.9	225.9	300.3	416.5	557.1	631.8
<b>Natural Gas (bcf)</b>									
Opening balance	743.1	734.7	1,267.9	1,852.1	1,901.8	2,301.7	2,663.5	2,834.4	3,221.0
Discoveries, additions and extensions	85.1	125.3	186.0	195.3	263.9	407.6	360.2	281.9	442.0
Drilling revisions and transfers	—	—	—	—	—	—	35.8	19.1	30.3
Net purchase and sales	(24.0)	530.1	564.1	9.5	34.2	289.6	(51.7)	368.6	(53.9)
Non-drilling revisions and transfers	7.2	1.4	15.1	82.0	338.7	(95.2)	100.2	47.4	(5.0)
Production	(76.7)	(123.6)	(181.0)	(237.1)	(236.9)	(240.2)	(273.6)	(330.4)	(362.1)
Closing balance	734.7	1,267.9	1,852.1	1,901.8	2,301.7	2,663.5	2,834.4	3,221.0	3,272.3
<b>BOE<sup>2</sup> (mmboe)</b>									
Opening balance	163.7	163.0	306.3	476.5	485.0	609.5	744.2	888.8	1,094.0
Discoveries, additions and extensions	17.0	31.9	39.8	47.9	77.7	136.6	102.4	93.3	112.4
Drilling revisions and transfers	—	—	—	—	—	—	46.8	18.7	38.7
Net purchase and sales of reserves	(3.7)	142.3	163.9	2.5	41.3	77.3	58.7	172.8	48.1
Non-drilling revisions and transfers	4.8	(0.1)	14.8	25.0	80.2	7.4	34.9	32.2	32.8
Production	(18.8)	(30.8)	(48.3)	(66.9)	(74.7)	(86.6)	(98.2)	(111.8)	(148.8)
Closing balance	163.0	306.3	476.5	485.0	609.5	744.2	888.8	1,094.0	1,177.2

1 Excludes sulphur and synthetic oil.

2 6 mcf of natural gas equals 1 boe.

## 2000 Landholdings

(thousands of acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
<b>Canada</b>						
Western Canada	2,434.8	1,184.6	5,148.9	3,363.2	7,583.7	4,547.8
Oil Sands	7.4	1.2	360.8	31.1	368.2	32.3
Total Western Canada	2,442.2	1,185.8	5,509.7	3,394.3	7,951.9	4,580.1
Ontario	464.6	305.2	941.7	587.6	1,406.3	892.8
Other <sup>1</sup>	2.0	—	3,269.0	284.5	3,271.0	284.5
<b>Total Canada</b>	<b>2,908.8</b>	<b>1,491.0</b>	<b>9,720.4</b>	<b>4,266.4</b>	<b>12,629.2</b>	<b>5,757.4</b>
<b>North Sea</b>	<b>188.4</b>	<b>88.8</b>	<b>2,024.4</b>	<b>801.0</b>	<b>2,212.8</b>	<b>889.8</b>
<b>Indonesia</b>	<b>292.6</b>	<b>127.1</b>	<b>1,847.6</b>	<b>1,376.4</b>	<b>2,140.2</b>	<b>1,503.5</b>
<b>Sudan</b>	<b>129.9</b>	<b>32.5</b>	<b>11,956.5</b>	<b>2,989.1</b>	<b>12,086.4</b>	<b>3,021.6</b>
<b>Other<sup>2</sup></b>	<b>65.6</b>	<b>1.3</b>	<b>1,364.9</b>	<b>658.3</b>	<b>1,430.5</b>	<b>659.6</b>
<b>Total International</b>	<b>676.5</b>	<b>249.7</b>	<b>17,193.4</b>	<b>5,824.8</b>	<b>17,869.9</b>	<b>6,074.5</b>
<b>Total Worldwide</b>	<b>3,585.3</b>	<b>1,740.7</b>	<b>26,913.8</b>	<b>10,091.2</b>	<b>30,499.1</b>	<b>11,831.9</b>

1 Includes Yukon Territory, Northwest Territories and Nunavut.

2 Includes undeveloped acreage in Algeria, Trinidad, Colombia and the US and developed acreage in the Ourhoud Unit in Algeria.



## Five Year Finding and Development Costs

	1996	1997	1998	1999	2000	3-year	5-year
<b>Proved Reserves Additions<sup>1</sup></b>							
Canada (mmboe)	60.8	70.7	70.4	55.1	93.2	218.7	350.2
International (mmboe)	97.7	73.3	113.7	89.1	90.7	293.6	464.5
Total	158.5	144.0	184.1	144.2	183.9	512.3	814.7
<b>Proved Net Acquisitions<sup>2</sup></b>							
Canada (mmboe)	(0.9)	70.6	(12.4)	95.2	(6.0)	76.8	146.5
International (mmboe)	42.2	6.7	71.2	77.6	54.1	202.8	251.7
Total	41.3	77.3	58.7	172.8	48.2	279.6	398.2
<b>Capital Spending (millions of dollars)<sup>3</sup></b>							
Exploration and Development							
Canada	311.2	397.1	381.3	300.5	658.7	1,340.5	2,048.8
International	215.5	498.7	670.7	621.1	459.6	1,751.4	2,465.6
Total Company	526.7	895.8	1,052.0	921.6	1,118.3	3,091.9	4,514.4
Net acquisitions and divestiture	505.9	679.0	214.1	1,581.5	209.5	2,005.1	3,190.0
Total Capital	1,032.6	1,574.8	1,266.1	2,503.1	1,327.8	5,097.0	7,704.4
<b>Proved F&amp;D Cost (\$/boe)</b>							
Canada	5.12	5.62	5.41	5.45	7.07	6.13	5.85
International	2.21	6.80	5.90	6.97	5.06	5.97	5.31
Total	3.32	6.22	5.71	6.39	6.08	6.04	5.54
<b>Proved + 1/2 Probable F&amp;D Cost (\$/boe)</b>							
Canada	5.55	5.30	5.82	4.65	7.34	6.10	5.84
International	2.56	8.66	6.10	6.14	2.59	4.51	4.65
Total	3.75	6.76	6.00	5.56	4.19	5.08	5.12
<b>Proved FD&amp;A Cost (\$/boe)</b>							
Canada	5.03	7.27	5.78	8.35	7.39	7.56	7.17
International	5.23	6.86	5.03	7.49	4.72	5.77	5.78
Total	5.17	7.12	5.21	7.90	5.72	6.44	6.35
<b>Proved + 1/2 Probable FD&amp;A Cost (\$/boe)</b>							
Canada	5.15	5.83	5.88	6.45	7.81	6.69	6.26
International	4.58	7.73	4.45	6.38	2.75	4.38	4.69
Total	4.73	6.37	4.76	6.42	4.01	5.16	5.30

6 mcf of natural gas equals 1 boe.

1 Proved discoveries and revisions only, excluding acquisitions, conventional oil only.

2 Reserve purchases less dispositions, includes asset sales, dispositions, swaps and corporate acquisitions.

3 Exploration and development spending excludes indirect exploration expenses, Syncrude, enhanced oil recovery, Chauvin pipeline, Canadian midstream and capitalized interest.

## 2000 Drilling Summary

		Exploration				Development				Total			
		Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
<b>Canada</b>	Gross	30.0	91.0	47.0	168.0	252.0	165.0	24.0	441.0	282.0	256.0	71.0	609.0
	Net	23.6	63.7	35.3	122.6	158.1	74.9	11.1	244.1	181.7	138.6	46.4	366.7
<b>North Sea</b>	Gross	1.0	—	2.0	3.0	10.0	4.0	3.0	17.0	11.0	4.0	5.0	20.0
	Net	0.8	—	1.1	1.9	3.3	0.5	1.0	4.8	4.1	0.5	2.1	6.7
<b>Indonesia</b>	Gross	—	1.0	4.0	5.0	60.0	1.0	1.0	62.0	60.0	2.0	5.0	67.0
	Net	—	0.4	2.1	2.5	29.9	0.4	0.4	30.7	29.9	0.8	2.5	33.2
<b>Sudan</b>	Gross	15.0	—	1.0	16.0	1.0	—	—	1.0	16.0	—	1.0	17.0
	Net	3.8	—	0.3	4.1	0.3	—	—	0.3	4.1	—	0.3	4.4
<b>Other<sup>1</sup></b>	Gross	3.0	1.0	5.0	9.0	6.0	—	—	6.0	9.0	1.0	5.0	15.0
	Net	1.1	0.3	2.4	3.8	0.1	—	—	0.1	1.2	0.3	2.4	3.9
<b>Total</b>	Gross	49.0	93.0	59.0	201.0	329.0	170.0	28.0	527.0	378.0	263.0	87.0	728.0
	Net	29.3	64.4	41.2	134.9	191.7	75.8	12.5	280.0	221.0	140.2	53.7	414.9

Water injection, source and disposal wells are not included.

1 Includes Algeria exploration and development wells, Trinidad exploration wells and a US exploration well.



## Production

Oil and Liquids (bbls/d)		Average working interest (%)	Production		
			2000	1999	1998
<b>Canada</b> <sup>1</sup>	Chauvin	97	11,376	9,822	8,715
	Greater Arch	76	11,047	6,028	3,483
	Carlyle	84	10,141	9,613	11,618
	Northern Plains	83	3,440	3,764	1,762
	Shaunavon	70	3,428	3,403	3,657
	Warburg	82	2,765	3,146	3,695
	Syncrude	1.25	2,540	2,765	2,664
	Other	80	21,637	19,948	21,991
	Total		66,374	58,489	57,585
<b>North Sea</b> <sup>2</sup>	Piper	60	22,236	—	—
	Claymore	47	18,863	—	—
	Clyde/Orion/Halley	86	16,015	13,445	9,300
	Ross	52	13,288	7,765	—
	Brae Area	13-20	10,762	12,286	15,350
	Tartan/Highlander/Petronella	100	7,873	—	—
	Buchan/Hannay	86	5,498	5,422	6,234
	Beatrice	100	2,998	4,333	7,531
	Blenheim and Bladon	68-100	1,152	5,153	8,913
	Other		13,217	10,852	10,152
	Total		111,902	59,256	57,480
<b>Indonesia</b> <sup>3</sup>	Tanjung Raya	100	6,884	7,803	7,258
	Corridor Technical Assistance Contract	40	5,351	4,825	4,952
	Ogan Komering <sup>4</sup>	50	3,938	12,025	15,602
	Corridor Production Sharing Contract	36	2,320	2,669	2,565
	Jambi	40	1,713	1,530	1,307
	Total		20,206	28,852	31,684
<b>Sudan</b>		25	45,869	11,726	—
<b>Total Liquids</b>			<b>244,351</b>	<b>158,323</b>	<b>146,749</b>
<b>Natural Gas (mmcf/d)</b>					
<b>Canada</b> <sup>1</sup>	Greater Arch	70	202.9	133.3	97.4
	Edson/Whitecourt	75	106.8	109.6	87.4
	Monkman	76	102.9	106.5	111.6
	Alberta Foothills	85	79.6	67.1	35.7
	Lac La Biche	82	70.7	81.1	82.5
	Northern Plains	69	46.5	47.0	42
	Ontario	64	19.0	19.2	18.9
	Other	69	127.2	117.3	155.3
	Total		755.6	681.1	630.8
<b>North Sea</b> <sup>2</sup>	Brae Area	13-14	74.5	63.4	59.9
	Netherlands	10-27	14.3	21.8	22.2
	Other		32.9	29.7	21.5
	Total		121.7	114.9	103.6
<b>Indonesia</b> <sup>3</sup>	Corridor Production Sharing Contract	36	110.8	108.2	13.4
<b>Total Gas</b>			<b>988.1</b>	<b>904.2</b>	<b>747.8</b>
<b>Total BOE</b>			<b>409</b>	<b>309</b>	<b>271</b>

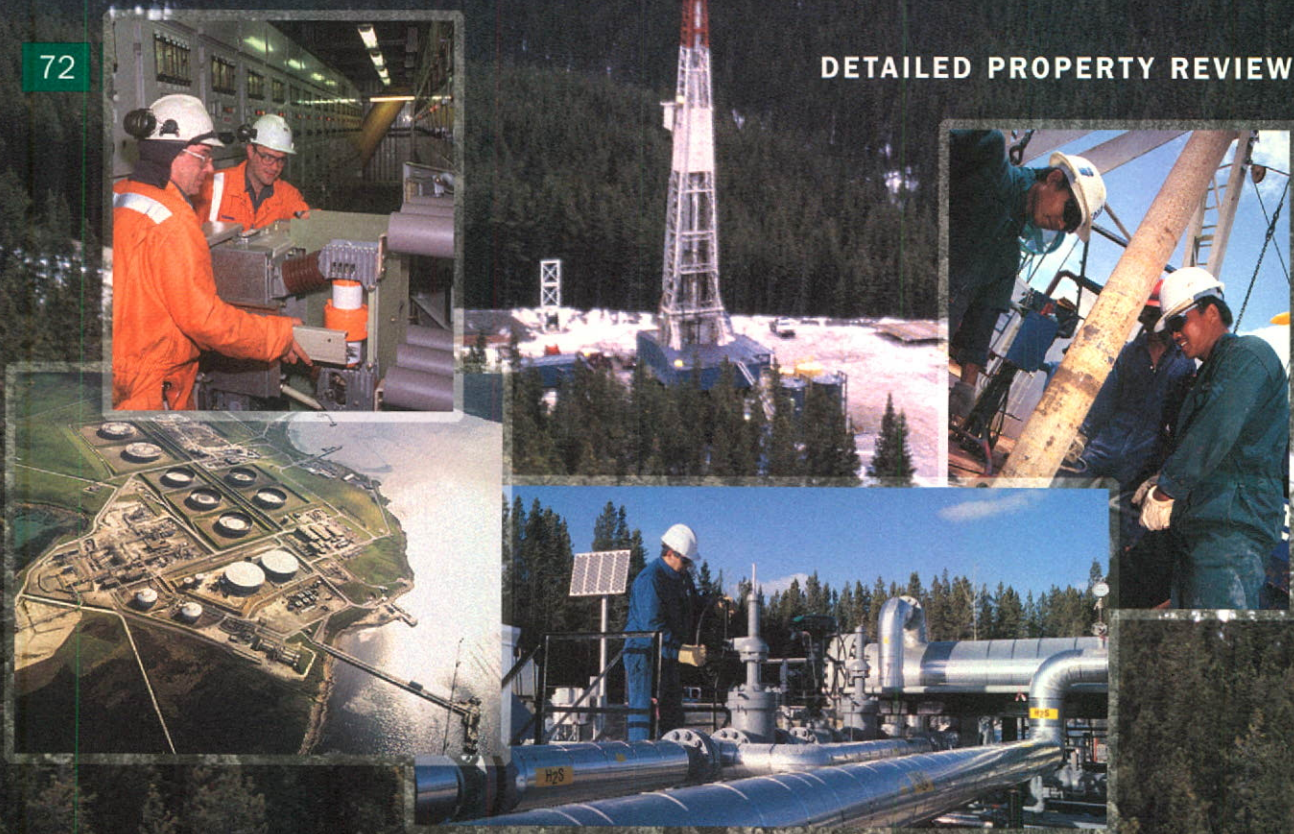
1 In Canada, Talisman operates approximately 85% of its oil and liquids production and approximately 71% of its natural gas production. Average working interest at December 31, 2000 in Talisman-operated properties only. Certain properties have been reallocated between core areas and, accordingly, volumes have been restated to confirm with current year presentation. The average crude oil gravity of Talisman's Canadian production is 35° API.

2 In the North Sea, Talisman operates approximately 68% of its oil and liquids production and 10% of its natural gas production. The average crude oil gravity of Talisman's North Sea production is 40° API.

3 Talisman operates approximately 54% of its oil production. The average crude oil gravity of Talisman's Indonesian production is 34° API.

4 Effective January 1, 2000, the Indonesia national oil company, Pertamina, elected to convert its previously reported royalty interest to a 50% equity interest.





## CANADA

### GREATER ARCH

The Greater Arch is Talisman's largest Canadian core area. Within the region there are numerous opportunities to add reserves adjacent to infrastructure.

The Company has a large inventory of multizone prospects and operates seven gas plants in the area.

#### 2000 Activity and Results

- ◆ Drilled 136 wells; 64 gas and 42 oil wells, with a success rate of 78%
- ◆ Capital spending of \$155 million
- ◆ Participated in the new Anderson West Culp Plant
- ◆ Commenced waterflood programs in Wembley Unit #3 and Sweeney
- ◆ Purchased approximately 185,000 net acres of land

#### 2001 Planned Activity

- ◆ Drill over 100 wells, the largest gas drilling program for Talisman in 2001
- ◆ Expected capital spending of approximately \$125 million

### ALBERTA FOOTHILLS

Much of the remaining gas potential in the Western Canada Basin will be found in deeper, technically challenging higher reward plays, such as the Alberta Foothills.

Talisman has built a substantial core exploration and production area in the central Alberta Foothills and has established a significant exploration presence in the northern Alberta Foothills. Our exploration inventory and infrastructure will underpin growth for many years.

#### 2000 Activity and Results

- ◆ Drilled 22 gas wells with a success rate of 95%
- ◆ Capital spending of \$119 million
- ◆ Reached a new production record of 96 mmcf/d in November 2000
- ◆ Installed compression and expanded dehydration facilities
- ◆ Purchased approximately 67,000 net acres of land

#### 2001 Planned Activity

- ◆ Drill 19 development and eight exploration wells
- ◆ Focus exploration drilling in the North Chungo and Findley areas
- ◆ Capital spending of approximately \$135 million



## CHAUVIN

Low finding and development costs and high working interests characterize the area. There is continuing potential to increase production through infill and stepout drilling.

### 2000 Activity and Results

- ◆ Achieved single day production record of 11,647 bbls/d
- ◆ Drilled 89 wells with a success rate of 100%
- ◆ Acquired several small gas properties
- ◆ Initiated conservation program as part of commitment to reduce gas flaring and gathered 5 mmcf/d of gas that otherwise would have been vented or flared
- ◆ Completed or initiated three major infill drilling/waterflood implementation programs
- ◆ Capital spending of \$65 million

### 2001 Planned Activity

- ◆ Drill 140 wells
- ◆ Implement several major development projects
- ◆ Increase focus on gas potential and use of existing Gas Conservation System infrastructure
- ◆ Capital spending of approximately \$70 million

## NORTHERN PLAINS

This area has the potential for large geological targets, which are identified using 3-D seismic. Due to the terrain in the area, most exploration and development activities are restricted to winter months only.

### 2000 Activity and Results

- ◆ Drilled 16 wells with a success rate of 88%
- ◆ Capital spending of \$28 million

### 2001 Planned Activity

- ◆ Drill four development wells and five exploration wells
- ◆ Capital spending of approximately \$15 million

## WHITECOURT

A large and growing prospect inventory ensures continuing success in this new core area. Acquisitions in 2000 have added production and additional growth opportunities.

### 2000 Activity and Results

- ◆ Drilled 50 wells with a success rate of 84%
- ◆ Capital spending of \$54 million
- ◆ Expanded Talisman McLeod River Plant
- ◆ Expanded gathering system and installed additional compression to accommodate production from new wells

### 2001 Planned Activity

- ◆ Drill 35 development and 20 exploration wells
- ◆ Capital spending of approximately \$50 million

## ONTARIO

Talisman is the largest oil and gas producer in Ontario. This is a very profitable high-netback area with ongoing oil exploitation through horizontal drilling.

In 2001, the Company will continue a major offshore gas drilling program and install additional compression.

### 2000 Activity and Results

- ◆ Drilled 18 oil wells and 14 gas wells (25 were horizontal)
- ◆ Twinned the gathering system at North Wheatley
- ◆ Capital spending of \$30 million

### 2001 Planned Activity

- ◆ Drill 28 development wells and 12 exploration wells
- ◆ Capital spending of approximately \$43 million
- ◆ Debottleneck the Morpeth gas plant and the Hillman and Renwick oil batteries

## MONKMAN/BC FOOTHILLS

In our 22-year presence at Monkman, we have been an industry leader in the number of deep wells drilled, success rates and pacesetting drilling costs.

Current production levels are limited by downstream plant capacity.

Talisman is expanding into deep target areas to the North.

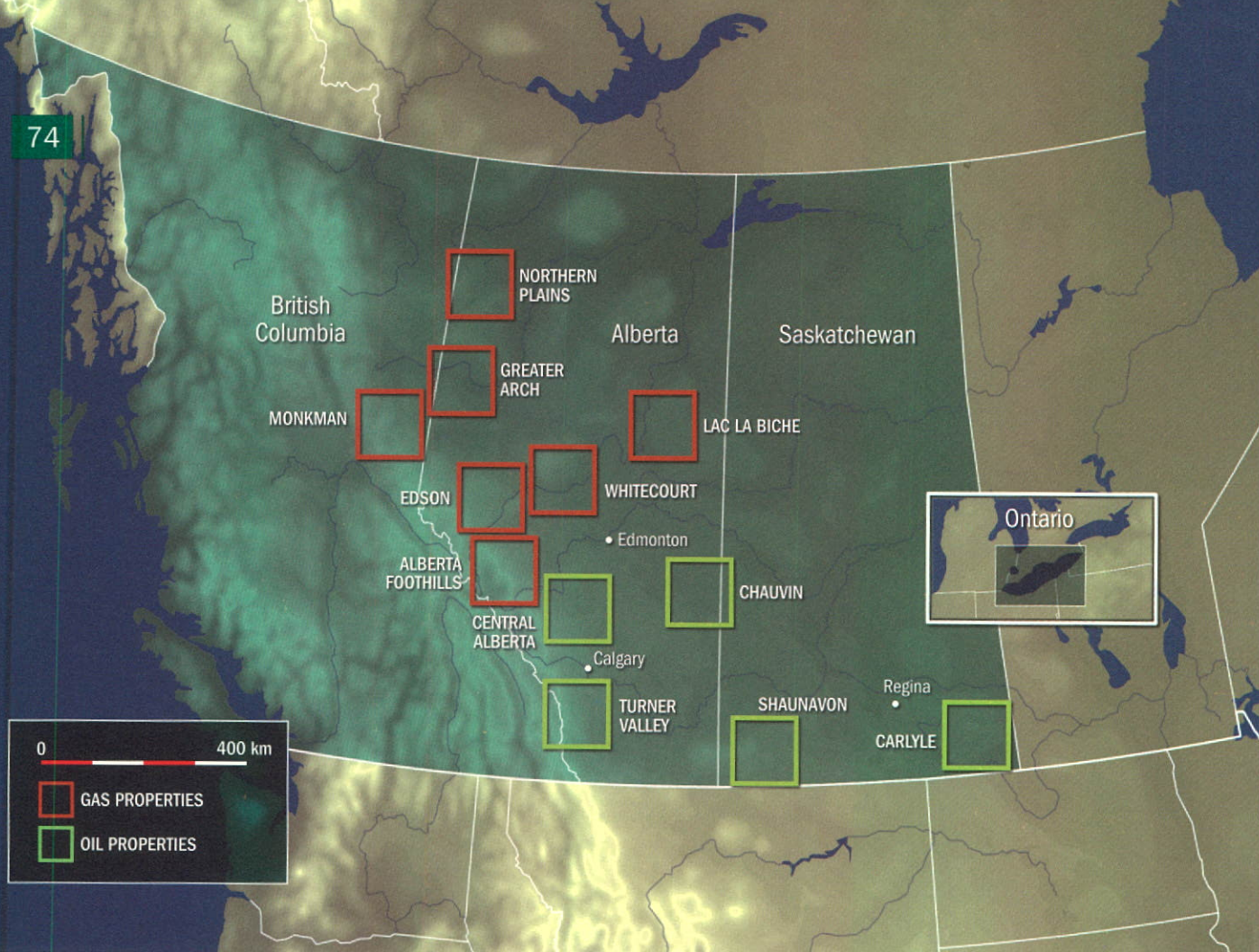
### 2000 Activity and Results

- ◆ Drilled two gas wells
- ◆ Tied in and brought on production two previously drilled wells
- ◆ Capital spending of \$31 million
- ◆ Started up Sukunka booster in October, increasing volumes by 6 mmcf/d

### 2001 Planned Activity

- ◆ Drill five exploration wells including a deep Paleozoic well
- ◆ Capital spending of approximately \$43 million





### CARLYLE

Low risk horizontal infill drilling is expected to continue for the next several years.

### 2000 Activity and Results

- ◆ Drilled 47 wells, resulting in 38 oil wells
- ◆ Capital spending of \$29 million

### 2001 Planned Activity

- ◆ Drill 18 development and 16 exploration wells
- ◆ Capital spending of approximately \$20 million

### EDSON

Our largest operated gas plant is located in Edson, Alberta. The plant has low operating costs and substantial third-party volumes.

The purchase of the midstream pipelines assets supplying the Edson gas plant will support Talisman's exploration program in the area and provide open access to other gas producers.

### 2000 Activity and Results

- ◆ Drilled nine wells with a success rate of 89%
- ◆ Capital spending of \$28 million
- ◆ Reached daily plant throughput high of 219 mmcf/d in December 2000, the highest in over 10 years

### 2001 Planned Activity

- ◆ Drill 14 exploration wells and one development well
- ◆ Capital spending of approximately \$40 million
- ◆ Evaluate cogeneration opportunity

### LAC LA BICHE

Shallow gas development in Lac La Biche is characterized by low risk, low operating cost opportunities.

### 2000 Activity and Results

- ◆ Drilled 24 wells, resulting in 21 gas discoveries
- ◆ Capital spending of \$14 million

### 2001 Planned Activity

- ◆ Drill 20 development wells
- ◆ Capital spending of approximately \$13 million



## CENTRAL ALBERTA

The Acme property, acquired through the Rigel acquisition, has development opportunities for both oil and gas.

### 2000 Activity and Results

- ◆ Drilled 19 horizontal wells, resulting in seven gas and 10 oil wells
- ◆ Capital spending of \$25 million
- ◆ Decreased lifting costs by 9%

### 2001 Planned Activity

- ◆ Drill 16 wells
- ◆ Capital spending of approximately \$20 million
- ◆ Install additional compression

## TURNER VALLEY

Turner Valley, acquired through the Pembina acquisition, has many opportunities for both oil and gas drilling. With large volumes of oil in place and a relatively low recovery to date, there is a significant opportunity to add value through enhanced oil recovery.

### 2000 Activity and Results

- ◆ Drilled two gas wells, with total spending of \$3 million
- ◆ Detailed technical evaluation of nitrogen injection for tertiary oil recovery

### 2001 Planned Activity

- ◆ Drill seven development wells and one exploration well
- ◆ Continue nitrogen injection feasibility study
- ◆ Capital spending of approximately \$16 million

## SHAUNAVON

Very shallow declines and attractive operating costs characterize the Shaunavon area pools.

### 2000 Activity and Results

- ◆ Resumed drilling in the Dollard and Instow pools
- ◆ Undertook a major waterflood and well optimization program at Dollard

### 2001 Planned Activity

- ◆ Additional drilling and waterflood optimization

## CENTRAL FOOTHILLS GAS GATHERING SYSTEM

Talisman purchased two pipeline systems for \$145 million. These systems open several new catchment areas.

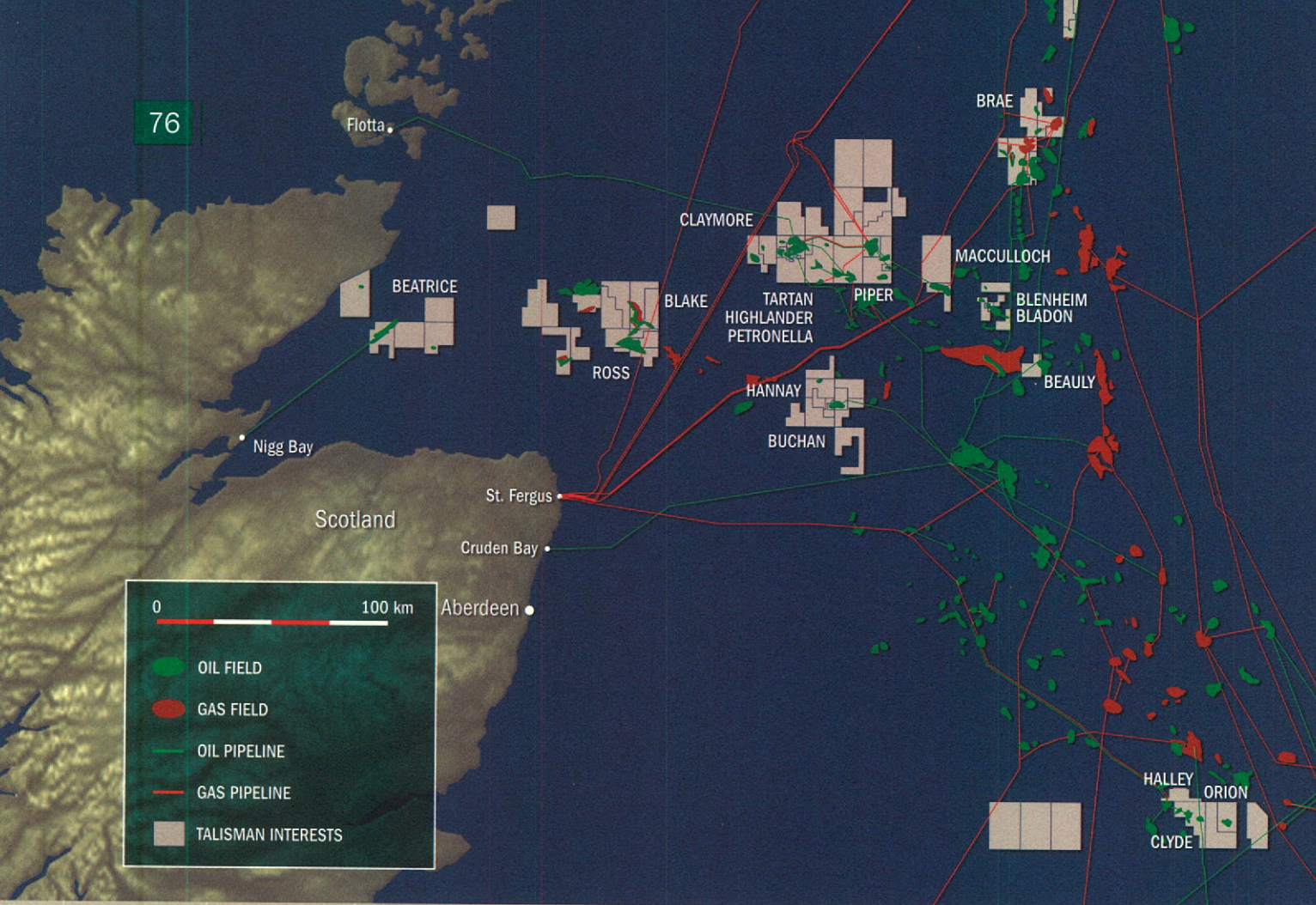
### 2000 Activity and Results

- ◆ Tied in five new wells since acquisition with five wells pending
- ◆ Increased gas flow to the Edson plant by 15 mmcf/d

### 2001 Planned Activity

- ◆ Capital spending of approximately \$22 million
- ◆ Evaluate adding new systems to the Midstream portfolio





## NORTH SEA

### ROSS AND BLAKE

Development drilling in the Ross field continued in 2000. The last four development wells were successful, enabling field production to exceed 30,000 bbls/d. At year end, an additional water injector was drilling.

The Blake field is under development with first production expected in August 2001 through the Ross FPSO, extending the Ross field life up to 10 years. Proved reserves in the Ross and Blake fields have been verified by independent audit.

### 2000 Activity and Results

- ◆ Capital spending of approximately \$118 million
- ◆ Obtained sanction for development of the Blake field
- ◆ Drilled and completed two development wells at Blake

### 2001 Planned Activity

- ◆ Drill two development wells in the Ross field
- ◆ Ross FPSO will be modified to accommodate Blake development
- ◆ Drill six Blake development wells
- ◆ Blake production expected to start in August
- ◆ Capital spending of approximately \$135 million

### CLYDE, ORION, HALLEY

The Orion development by tieback to Clyde is typical of the type of development Talisman is undertaking in the North Sea.

Clyde and Orion proved reserves were confirmed by independent audit.

### 2000 Activity and Results

- ◆ Capital spending of \$40 million
- ◆ Drilled one successful development well in the Clyde field and a successful exploration well in the adjacent North Leven prospect (now on production)
- ◆ Completed acquisition of Fulmar and Halley field interests
- ◆ Completed commercial arrangements for Halley development and sanctioned project

### 2001 Planned Activity

- ◆ Drill two Halley development wells and start production
- ◆ Drill two Clyde infill development wells and two Clyde exploration wells
- ◆ Capital spending of approximately \$67 million



## FLOTTA CATCHMENT AREA

Since the acquisition of the Tartan, Highlander and Petronella (THP) fields in 2000, this core area, which includes Piper, and Claymore has been renamed the Flotta Catchment Area. Proved reserves in the Tartan, Highlander and Petronella fields have been verified by independent audit.

### 2000 Activity and Results

- ◆ Capital spending of \$37 million
- ◆ Acquired Texaco interests in the Flotta Catchment Area, effective February 1
- ◆ Assumed Operatorship of Piper and Claymore areas (May 1) and Tartan complex (October 1)
- ◆ Reduced unit operating costs by 25%
- ◆ Commenced drilling and workover activity

### 2001 Planned Activity

- ◆ Capital spending of approximately \$152 million
- ◆ Drill or sidetrack up to 10 development wells and a number of other workovers
- ◆ Drill three exploration prospects
- ◆ Implement an extensive 3-D seismic survey covering most of the Flotta Catchment Area
- ◆ Implement Claymore platform facilities upgrades and debottlenecking

## BUCHAN AND HANNAY

A comprehensive redevelopment program is underway for the Buchan field and area. In 1999, flexible oil production risers were installed which significantly increases platform uptime and allows for well intervention, surveillance and sidetrack drilling using coiled tubing.

### 2000 Activity and Results

- ◆ Capital spending of \$32 million
- ◆ Commenced coiled tubing operations with the successful well surveillance and plug back of one well
- ◆ Acquired additional interests in the Hannay discovery and commenced development planning as a tieback to Buchan

### 2001 Planned Activity

- ◆ Capital spending of approximately \$83 million
- ◆ Drill two coiled tubing sidetracks in Buchan field
- ◆ Sanction of Hannay field development for first oil production in the fourth quarter
- ◆ Drill one to two exploration wells in the Buchan area.

## BEATRICE

The Beatrice field was acquired in 1996 with the expectation that production could cease as early as 1998. Talisman has optimized production and dramatically reduced operating costs. During a routine pressure test of the export pipeline with seawater, a pinhole leak was detected and production has been shut down since. A field redevelopment plan has now been approved which will involve replacement of most of the offshore pipeline.

### 2000 Activity and Results

- ◆ Capital spending of \$15 million
- ◆ Marcel exploration well was drilled and not commercial
- ◆ Shutdown of Beatrice field since the third quarter of 2000

### 2001 Planned Activity

- ◆ Capital spending of approximately \$58 million
- ◆ Replace offshore export pipeline
- ◆ Drill two sidetrack and two workover wells
- ◆ Restart production in July

## BRAE

Talisman has interests in seven producing fields in the Brae complex. This is a low cost long life asset.

### 2000 Activity and Results

- ◆ Drilled six successful wells

### 2001 Planned Activity

- ◆ Drill four development sidetrack wells

## NETHERLANDS

Talisman holds working interests in a number of long life low risk gas properties.

### 2000 Activity and Results

- ◆ Drilled one successful development well

### 2001 Planned Activity

- ◆ Drill three development wells

## OTHER

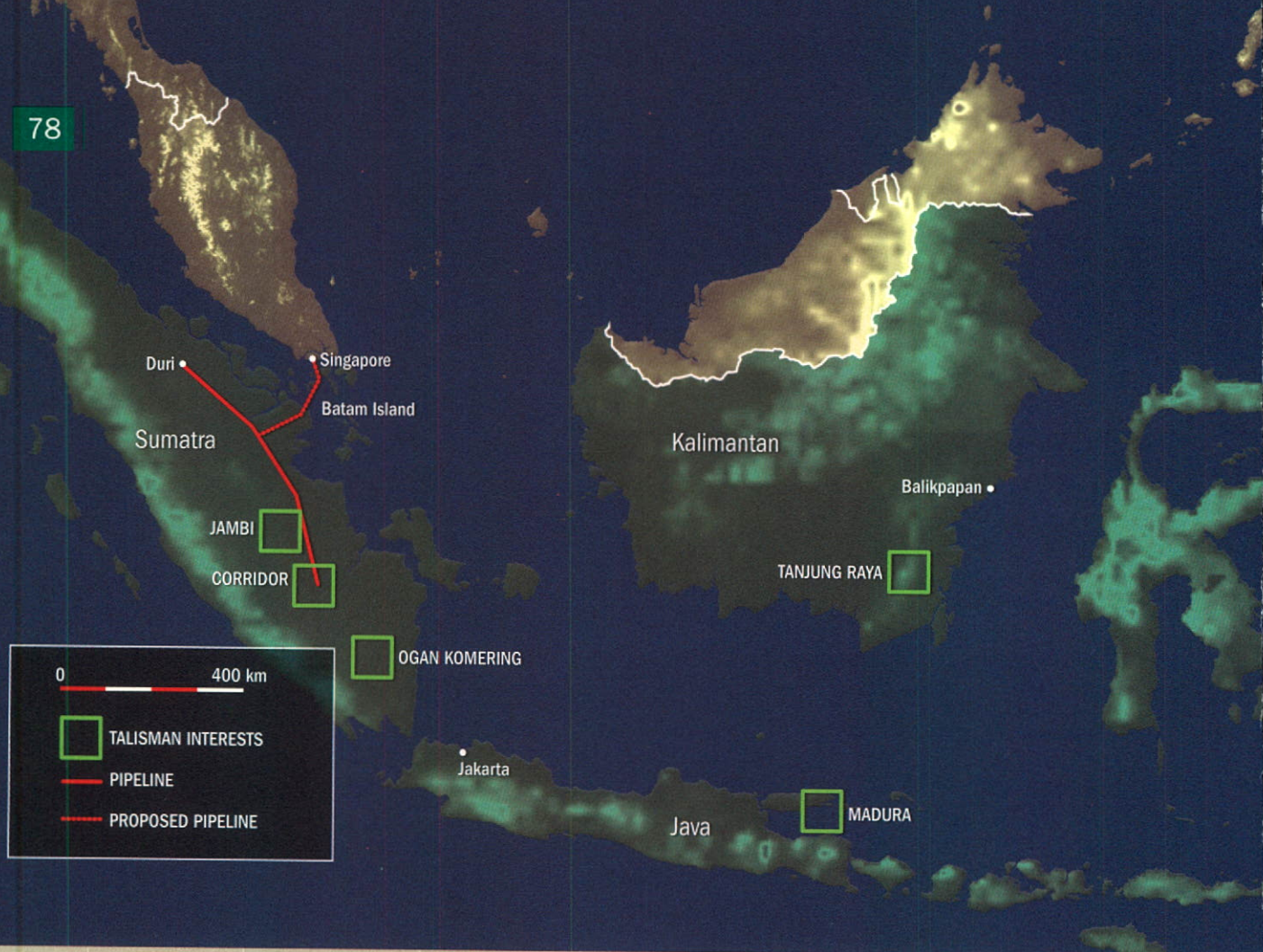
### Blenheim and Bladon

- ◆ Blenheim and Bladon were produced through a floating production system. The fields were decommissioned in 2000 as planned

### Southern North Sea

- ◆ Talisman sold its 20% equity interest in the Trent and Tyne fields at year end





## INDONESIA

### CORRIDOR

The Corridor Block is an area of tremendous natural gas potential. At year end, Talisman had booked over 2 tcf of proved, probable and possible gas reserves. These reserves have been confirmed by independent audit in 1999 and 2000. Proved reserves associated with the sale of Corridor gas to Singapore Power will be booked in 2001.

#### 2000 Activity and Results

- ◆ Completed second year of gas project operations
- ◆ Appraisal of Suban-4 well appears to have significantly increased gross proved reserves for the field
- ◆ Executed contract for additional sale of approximately 1.1 tcf (0.4 tcf net) of gas to Caltex
- ◆ Capital spending of \$25 million
- ◆ Drilled 30 successful oil wells in the Technical Assistance Contract

#### 2001 Planned Activity

- ◆ Negotiations for sale of gas to Singapore Power (completed in February 2001)
- ◆ Commence construction of Suban processing plant with further delineation of the Suban field
- ◆ Capital spending of approximately \$94 million
- ◆ Continued evaluation of additional gas markets
- ◆ 22-well development drilling program in the Technical Assistance Contract

### TANJUNG RAYA

This major oil field contains an estimated 600 mmbbls of oil in place. Talisman commenced water injection in 1995 to increase oil recovery.

#### 2000 Activity and Results

- ◆ Drilled 10 successful oil wells
- ◆ Completed a successful multiple well fracture stimulation program
- ◆ Capital spending of \$17 million

#### 2001 Planned Activity

- ◆ Drill five wells
- ◆ Capital spending of approximately \$11 million



## OGAN KOMERING

The decrease in net production in 2000 is largely the result of Pertamina, the Indonesian national oil company, electing to convert its previously reported royalty interest to a 50% equity interest effective January 1, 2000. The OK Block has attained cost recovery and is subject to high royalty rates.

### 2000 Activity and Results

- ◆ Completed a nine well drilling program, with eight successful oil wells
- ◆ Capital spending of \$4 million

### 2001 Planned Activity

- ◆ Drill six infill wells
- ◆ Complete a gas project for startup in the third quarter
- ◆ Capital spending of approximately \$6 million

## JAMBI

Since obtaining the Jambi Enhanced Oil Recovery Contract in 1994, production has increased 66% from a successful workover and waterflood program.

### 2000 Activity and Results

- ◆ Drilled 12 successful oil wells
- ◆ Capital spending of \$3 million

### 2001 Planned Activity

- ◆ Drill 13 wells with capital spending of approximately \$4 million

## MADURA

Madura contains a number of high risk, high potential gas prospects.

### 2000 Activity and Results

- ◆ Drilled one exploration well which was non-commercial
- ◆ No additional drilling activity is currently planned

## SUDAN

Talisman has a 25% interest in the Greater Nile Oil Project that covers four blocks on 12.1 million acres in the Muglad Basin. Talisman will continue to develop and tie in oil fields on Blocks 1a and 2a, as well as explore for significantly larger targets on Block 4.

Proved reserves in the main Heglig and Toma South fields were confirmed by independent audit.

### 2000 Activity and Results

- ◆ Capital spending of \$70 million
- ◆ Drilled 17 wells, 16 exploration and one development; five additional exploration and appraisal wells were drilled and cased but remain to be tested in 2001
- ◆ Added significant reserves in several of the main producing fields and in the Bamboo, Munga and Khairat development areas
- ◆ Commenced major electrical submersible pump installation project which, combined with plant debottlenecking, resulted in increased production

### 2001 Planned Activity

- ◆ Drill 42 wells; 12 exploration, five appraisal and 25 development
- ◆ Continue seismic program
- ◆ Capital spending of approximately \$120 million
- ◆ Continue development of the Bamboo, Munga and Khairat area fields
- ◆ Debottleneck facilities to increase throughput to 230,000 bbls/d





Colombia

Trinidad

Algeria

## EXPLORATION AREAS

### ALGERIA

Talisman holds a 35% working interest in Block 405 and a 2% interest in the Ourhoud Field. First production is expected in 2003.

#### 2000 Activity and Results

- ◆ Capital spending of \$34 million
- ◆ Drilled four exploration wells in Block 405
- ◆ Tested MLSE-3 well at a combined flow rate in excess of 21,000 bbls/d
- ◆ Tested MLSE-4 well at 10.7 mmcf/d of gas
- ◆ Successful exploration well at MLW-2 tested at 11,880 bbls/d
- ◆ Approval of the MLN Exploitation Licence Application

#### 2001 Planned Activity

- ◆ Development of the MLN field
- ◆ Submission of Exploitation Licence Applications submitted in late 2000 for several satellite fields surrounding the MLN development
- ◆ Capital spending of approximately \$70 million

### TRINIDAD

Talisman holds interests in Blocks 2(ab) and 2(c) in shallow water offshore Trinidad. The Company is exploring in an area along trend from oil discovered in the regional thrust and fold belt.

#### 2000 Activity and Results

- ◆ Capital spending of \$7 million
- ◆ Successful exploration well, Aripo-1 on Block 2(c) tested at rates up to 46.3 mmcf/d

#### 2001 Planned Activity

- ◆ Drill a third exploration well on Block 2(c) to test the extent of the gas discovery in the Aripo well
- ◆ Drill an oil exploration well on Block 2(ab)
- ◆ Capital spending of approximately \$18 million

### COLOMBIA

Talisman was awarded the Acevedo block in Colombia in December 2000. The block comprises approximately 187,000 acres and is situated in the highly prospective Upper Magdalena Valley.

#### 2000 Activity and Results

- ◆ Ongoing review of selected opportunities in the Upper Magdalena Valley
- ◆ Qualification for 2001 exploration acreage round

#### 2001 Planned Activity

- ◆ Commence exploration review of the Acevedo block
- ◆ Reprocess existing seismic data
- ◆ Conduct social and environmental impact studies
- ◆ Acquire and interpret new seismic data
- ◆ Assess additional opportunities



## Share Capital

### Common Shares

Transfer agent: Computershare Trust Company of Canada, Calgary, Toronto, Montreal, Vancouver

Co-transfer agent: Computershare Trust Company, Inc.  
Authorized: Unlimited number of common shares and unlimited number of first and second preferred shares

Issued: 135,344,045 common shares

### Preferred Securities

Trustee: The Chase Manhattan Bank, New York  
Issued: TLM PrA 6,000,000 9% Preferred Securities each having principal amount of US\$25  
Issued: TLM PrB 6,000,000 8.9% Preferred Securities each having principal amount of US\$25

Talisman's Preferred Securities are currently rated as:  
CBRS — BBB (mid); DBRS — Pfd-3 (high);  
Moody's — baa2; S&P — BBB-

## Share Price Performance

Weekly Closing Price — January 1996 to December 2000:



## Stock Exchange Listings

### Common Shares

Symbol: TLM  
Canada: The Toronto Stock Exchange  
United States: New York Stock Exchange

### Preferred Securities

Symbol: TLM PrA, TLM PrB  
United States: New York Stock Exchange

## Public Debt

Trustee: Computershare Trust Company, Inc., Calgary  
7.125% (US\$) unsecured debentures  
9.80% unsecured debentures, Series B  
7.25% (US\$) unsecured debentures  
9.66% unsecured medium term notes  
5.70% unsecured medium term notes  
8.06% unsecured medium term notes

Talisman's public long-term debt is currently rated as:  
CBRS — A (low); DBRS — BBB (high); Moody's — Baa1;  
S&P — BBB+

Talisman's commercial paper is currently rated as:  
CBRS — A-1 (low); Moody's — P-2

## Private Debt

6.71% (US\$) unsecured notes, Series A  
6.96% (US\$) unsecured notes  
6.89% (US\$) unsecured notes, Series B

## Dividend Policy

The Company has not paid dividends since 1991. The dividend policy is reviewed annually by the Board of Directors.

## Market Information

Common Shares		2000		1999		1998	
		TSE (C\$)	NYSE (US\$)	TSE (C\$)	NYSE (US\$)	TSE (C\$)	NYSE (US\$)
Share Price (dollars)	High	58.85	39.75	49.15	32.56	45.60	32.13
	Low	34.40	23.88	22.10	15.67	22.50	14.63
	Close	55.65	37.06	36.90	25.92	26.95	17.50
Shares Traded (millions)	First quarter	43.3	4.3	38.3		28.7	
	Second quarter	40.6	7.9	30.1		22.5	
	Third quarter	40.3	7.7	48.5		30.3	
	Fourth quarter	35.4	8.3	33.4		37.7	
	Year	159.6	28.2	150.3		119.2	
Year end shares outstanding (millions)		135.3		138.3		118.9	
Weighted average shares outstanding (millions)		137.8		124.6		111.9	
Stock options outstanding at year end (millions)		6.9		7.2		5.9	



**Board of Directors**

**Peter N.T. Widdrington**<sup>1,3,5</sup>  
London, Ontario  
Chairman, Talisman Energy Inc.

**Robert A. Bandeen, O.C.**<sup>2</sup>  
Toronto, Ontario  
Chairman and President,  
Cluny Corporation

**James W. Buckee**<sup>1,4,6</sup>  
Calgary, Alberta  
President and Chief Executive  
Officer, Talisman Energy Inc.

**Al L. Flood, C.M.**<sup>1,3</sup>  
Thornhill, Ontario  
Corporate Director

**Paul J. Hoenmans**<sup>2,4</sup>  
Aspen, Colorado  
Corporate Director

**Dale G. Parker**<sup>2,5</sup>  
Vancouver, British Columbia  
Public Administration and  
Financial Institution Advisor

**David E. Powell**<sup>1,3,5,6</sup>  
Calgary, Alberta  
Chairman of the Board, Petroleum  
Industry Training Service

**Roland Priddle**<sup>2,4</sup>  
Saanich, British Columbia  
Consultant

**Stella M. Thompson**<sup>3,4,5,6</sup>  
Calgary, Alberta  
Principal, Governance West Inc.  
President, Stellar Energy Ltd.

- 1 Member of Executive Committee
- 2 Member of Audit Committee
- 3 Member of Management Succession  
and Compensation Committee
- 4 Member of Pension Funds Committee
- 5 Member of Governance and  
Nominating Committee
- 6 Member of Year 2000 Committee  
(Disbanded February 16, 2000)

**Executive**

**James W. Buckee**  
President and Chief Executive Officer

**Edward W. Bogle**  
Vice-President, Exploration

**T. Nigel D. Hares**  
Vice-President, Frontier and International  
Operations

**Joseph E. Horler**  
Vice-President, Marketing

**Michael D. McDonald**  
Vice-President, Finance and  
Chief Financial Officer

**Robert W. Mitchell**  
Vice-President, Canadian Operations

**Robert M. Redgate**  
Vice-President, Human Resources  
and Corporate Services

**M. Jacqueline Sheppard**  
Vice-President, Legal and Corporate  
Projects, and Corporate Secretary

**CORPORATE INFORMATION****Executive Office**

Talisman Energy Inc.  
3400, 888 - 3 Street S.W.  
Calgary, Alberta, Canada T2P 5C5  
Telephone: (403) 237-1234  
Facsimile: (403) 237-1902

**Investor Relations Contacts**

**M. Jacqueline Sheppard**  
Vice-President, Legal and Corporate  
Projects, and Corporate Secretary  
(403) 237-1183

**David Mann**  
Manager, Investor Relations  
and Corporate Communications  
(403) 237-1196

**Selected Field Offices**

Talisman House  
163 Holburn Street  
Aberdeen AB10 6BZ, Scotland  
Telephone: (1224) 352-500  
Facsimile: (1224) 353-400

Setiabudi Atrium Office,  
Suite 410, 4th floor  
Jl. H.R. Rasuna Said Kav.62  
Jakarta, 12920, Indonesia  
Telephone: (021) 521-0650  
Facsimile: (021) 521-0660

AAAIID building  
Baladya Street  
Box 10797  
Khartoum, Sudan  
Telephone: (249) 11 790-815  
Facsimile: (249) 11 790-814

**Annual Meeting**

The Annual Meeting of Shareholders of Talisman Energy Inc. will be held at 11:00 a.m. on Tuesday, May 1, 2001 in the Imperial Ballroom of the Hyatt Regency Calgary Hotel, 700 Centre Street South, Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to sign and return the form of proxy mailed with this report.

**Website**

[www.talisman-energy.com](http://www.talisman-energy.com)  
E-mail: [t1m@talisman-energy.com](mailto:t1m@talisman-energy.com)



## Abbreviations

API	American Petroleum Institute	mmcf/d	million cubic feet per day
Arakis	Arakis Energy Corporation	mmbbls	million barrels
bbls	barrels	mmboe	million barrels of oil equivalent
bbls/d	barrels per day	Moody's	Moody's Investor Service
bcf	billion cubic feet	NYMEX	New York Mercantile Exchange
boe	barrels of oil equivalent	OPEC	Organization of Petroleum
boe/d	barrels of oil equivalent per day		Exporting Countries
C\$	Canadian dollars	Pembina	Pembina Resources Limited
CBRS	Canadian Bond Rating Service	Rigel	Rigel Energy Corporation
CFGGS	Central Foothills Gas Gathering System	S&P	Standard & Poor's Ratings Group
DBRS	Dominion Bond Rating Service	tcf	trillion cubic feet
EBITDAX	Earnings before interest, preferred security charges, income taxes, depreciation, depletion and amortization, impairment write downs, exploration and dry hole expense	UK	United Kingdom
		US	United States of America
		US\$	US dollars
		WTI	West Texas Intermediate Crude Oil
FCA	Flotta Catchment Area		
FPSO	Floating Production, Storage and Offloading Vessel		
FRA	Fourth Round Assets		
Highridge	Highridge Exploration Ltd.		
LPG	liquid petroleum gas		
LIBOR	London Interbank Offered Rate		
mcf	thousand cubic feet		
mcf/d	thousand cubic feet per day		
mmcf	million cubic feet		

### Conversion and Equivalency Factors

Imperial		Metric
1 ton	=	0.907 tonnes
1 acre	=	0.40 hectares
1 barrel	=	0.159 cubic metres
1 cubic foot	=	0.0282 cubic metres
Barrels of oil equivalent have been calculated on the basis of 6 mcf of natural gas equals 1 boe		

## Forward-Looking Statements

This Annual Report contains statements that constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. Such statements are included throughout this Annual Report, including, among other places, under the "Management's Discussion and Analysis" section and in the descriptions of the Company's worldwide properties. These statements include, among others, statements regarding outlook on oil and gas prices, estimates of future production, business plans for drilling and exploration, the estimated amounts and timing of capital expenditures, anticipated future debt levels and royalty rates, or other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect," "is expected," "anticipates" or "does not anticipate," "plans," "estimated" or "intends," or stating that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved). Statements concerning oil and gas reserves contained in this Annual Report or in the annual consolidated financial statements

for the year ended December 31, 2000 and elsewhere may also be deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the resources described can be profitably produced in the future. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company. These risks include, but are not limited to: the risks of the oil and gas industry (for example, operational risks in exploring for, developing and producing crude oil and natural gas; risks and uncertainties involving geology of oil and gas deposits; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; and health, safety and environmental risks); uncertainties as to the availability and cost of financing; risks in conducting foreign operations (for example, political and fiscal instability or the possibility

of civil unrest or military action in countries such as Indonesia, Sudan, Algeria or Colombia); the effect of United States sanctions against Sudan; fluctuations in oil and gas prices and foreign currency exchange rates; and the possibility that government policies may change or governmental approvals may be delayed or withheld. Additional information on these and other factors which could affect the Company's operations or financial results are included in the Annual Report under the headings "Management's Discussion and Analysis – Liquidity and Capital Resources," "– Risks and Uncertainties," and "– Outlook," and elsewhere, and in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC). Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

## Note to US Readers

The US Securities and Exchange Commission normally permits oil and gas companies to disclose in their SEC filings only proved reserves that have been demonstrated by

actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. Accordingly, the

probable reserves and the calculations with respect thereto included in this report do not meet the SEC's standards for inclusion in documents filed with the SEC.





**TALISMAN**  
E N E R G Y

**Talisman Energy Inc.**

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