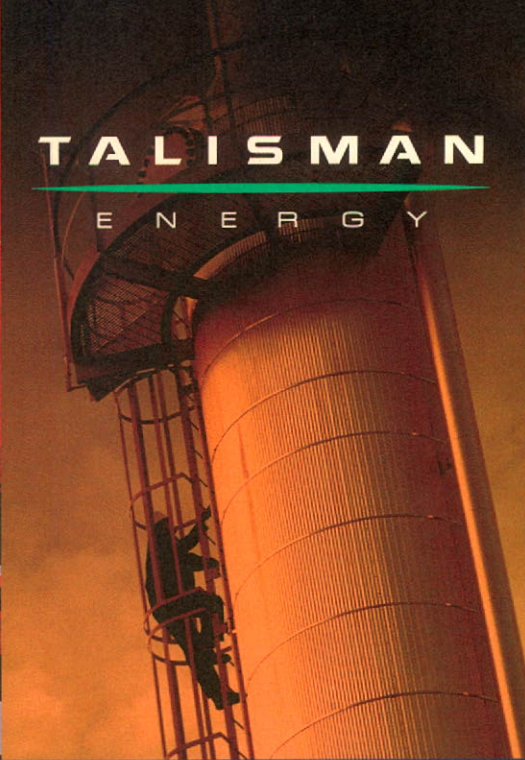




TALISMAN

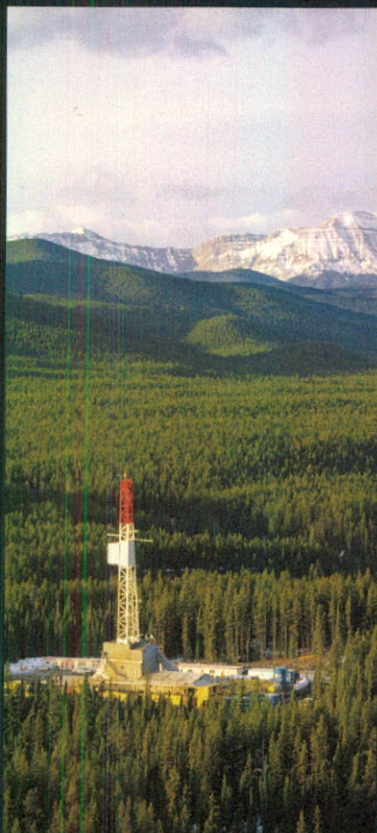
ENERGY



2001 ANNUAL REPORT



WHO ARE WE?



Talisman Energy Inc. is a large, diversified, oil and gas producer based in Calgary, Canada. We are a major North American natural gas supplier and over the past decade have successfully expanded into a number of international areas.

Talisman's objective is to create value for its shareholders in the upstream oil and gas business. In an industry where commodity prices are not in our control, we believe companies that grow reserves and production per share at the lowest cost, perform best for their shareholders.

Talisman maintains a strong commitment to all stakeholders, including shareholders, debt holders, employees, customers, suppliers, governments and the communities where we operate. We are committed to high standards of social and environmental responsibility wherever we do business.

Talisman was established in 1993 with its head office in Calgary, Alberta, Canada. At year end 2001, the Company had an enterprise value of approximately \$11 billion. Talisman's common shares are listed on both the Toronto and New York stock exchanges under the symbol TLM.

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JUN 26 2003

McGILL UNIVERSITY

A DISCUSSION WITH DR. JIM BUCKEE



Q. Looking back on 2001, what were Talisman's major achievements and challenges?

I think a major achievement last year was the establishment of two new core international areas with production starting in 2003 and 2004. This painted in the growth profile investors were looking for. Increasing our proved reserves by 26% to 1.5 billion boe and probable reserves by 27% to almost one billion boe was also an exceptional accomplishment. Our finding and development costs were among the best in the industry. We expect to increase production by about 10% annually over the next three years without need of additional acquisitions.

Our prospects in Trinidad are very exciting. We added 83 mmboe of probable reserves, with up to 11 wells planned this year and production expected in 2004.

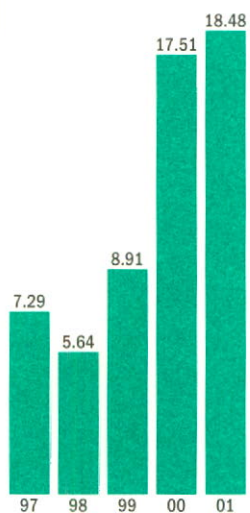
The most frustrating issue last year was the production delays in Canada and the North Sea. We were affected by mechanical and start up issues, weather delays and regulatory hurdles.

Q. What do you see for 2002?

Much of the groundwork was done last year. Development in Malaysia and Vietnam is on schedule, with most contracts awarded. First production from Algeria is

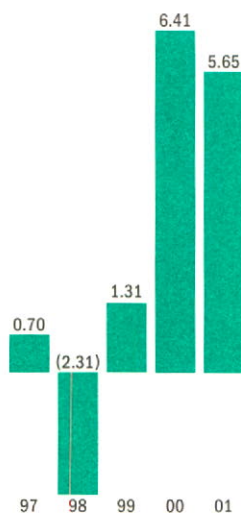
Cash Flow Per Share

(dollars)



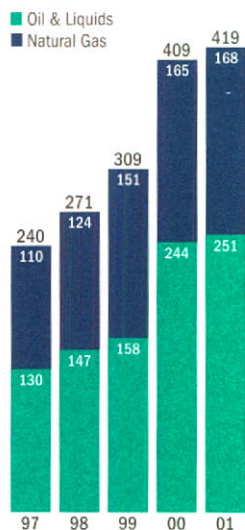
Net Income (Loss)

Per Share (dollars)



Production

(mboe/d)



HIGHLIGHTS

	2001	2000	1999	1998	1997
FINANCIAL (millions of Canadian dollars unless otherwise stated)					
Cash flow	2,494	2,413	1,111	631	797
Net income (loss)	786	906	177	(259)	77
EBITDAX	2,912	2,902	1,352	813	902
Exploration and development expenditures	1,882	1,179	996	1,145	951
Total assets	10,906	8,676	7,808	5,457	5,031
Long-term debt	2,983	1,733	2,195	2,086	1,739
Shareholders' Equity	4,229	3,665	3,623	2,214	2,187
PRODUCTION (daily average)					
Oil and liquids (bbls/d)					
Canada	66,056	66,374	58,489	57,585	51,217
North Sea	110,828	111,902	59,256	57,480	50,502
Southeast Asia	20,873	20,206	28,852	31,684	28,458
Sudan	53,257	45,869	11,726	—	—
Total oil and liquids	251,014	244,351	158,323	146,749	130,177
Natural gas (mmcf/d)					
Canada	809	755	681	631	558
North Sea	108	122	115	104	100
Southeast Asia	93	111	108	13	—
Total natural gas	1,010	988	904	748	658
Total mboe/d ¹	419	409	309	271	240
Shares outstanding at December 31 (millions)	133.7	135.3	138.3	118.9	109.6
Number of employees at December 31	1,358	1,263	1,113	986	945

¹ Six mcf of natural gas equals one boe.

HOW IS TALISMAN DIFFERENT?

Talisman has been one of the most successful among its peers at building a diversified, international portfolio. Talisman has grown its international production from 48,000 boe/d in 1995 to 218,000 boe/d in 2001 and now has operations in 10 areas, making it the largest international producer among North American independents.

Talisman is one of the most successful deep gas explorers in Western Canada and is a leader in developing natural gas deposits in the deeper thrust and fold belt along the Rocky Mountains. Talisman has added over 1.4 tcf of natural gas in Canada over the past five years, adding 2.5 bcf per successful gas well, approximately three times the industry average.

WHY INVEST IN THE OIL AND GAS INDUSTRY?

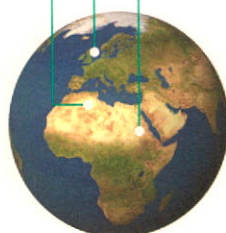
The oil and gas business plays a vital role in today's economy, providing two-thirds of North America's energy needs, cooling and heating homes, fuelling cars and airplanes and generating electricity for lights and computers. Global energy demand is very large and continues to grow. The energy needs of tomorrow must be met by today's exploration and development activities. Because oil and gas are non-renewable, depleting resources, this tension underpins a bright future for the energy industry.

One of Talisman's objectives is to outperform the TSE Oil and Gas Producers Index. Over the past three years, Talisman's share price has increased by 31% annually, compared to 22% for the Producers Index and 6% for the TSE 300 Composite.

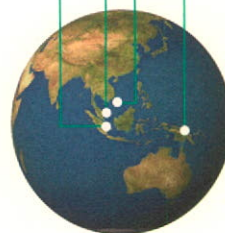
CANADA
UNITED STATES
COLOMBIA
TRINIDAD



NORTH SEA
ALGERIA
SUDAN



MALAYSIA
INDONESIA
VIETNAM
PAPUA NEW GUINEA



ENERGY — A VITAL BUSINESS

WHY INTERNATIONAL?

Canada and the North American gas business will remain a large part of Talisman's operations for some time to come. However, Canadian and US hydrocarbon basins are mature and competitive by global standards and we believe the best way to achieve growth and add value is with a diversified international portfolio. As an example, Talisman adds an average of about 130,000 bbls of reserves per successful oil well in Canada, which is typical of the industry. In the North Sea, Talisman adds about five mmbbls per successful oil well.

TALISMAN IS A PREMIUM INVESTMENT

In our first decade as an independent producer, Talisman has delivered both shareholder value and growth.

- Reserves per share growth of 13% annually
- Production per share growth of 14% annually
- Cash flow per share growth of 33% annually

This track record has been achieved by an experienced senior management team, led by Jim Buckee, and supported by some of the best technical and commercial people in the industry. Talisman is financially strong and has 1.5 billion boe of high quality proved reserves. The Company has a large prospect inventory in each of its core areas and expects significant growth over the next three years.

expected early in 2003. We have two, and possibly three, new oil fields coming on stream in the North Sea. We will pursue the recent extension of the Blake field, as well as opportunities in the Flotta Catchment area.

The Canadian program has been scaled down in response to lower natural gas prices but we still plan to drill over 560 wells. There are also a number of interesting developments with the deep test at Monkman nearing completion, significant programs at Edson, Alberta Foothills, the Greater Arch and Chauvin. As well, we are evaluating our heavy oil leases and coal bed methane opportunities. We will also drill our first gas well in the northeastern US.

With lower oil and gas prices, cash flow will likely be down, in the \$2 billion range, but our balance sheet is strong and we will continue to invest in future growth and value.

Whatever action we take with our Sudanese assets will be designed to maximize value for our shareholders. Whether we stay or sell, I believe we have created value for our shareholders and developed an excellent program of corporate social responsibility.

Q. The past 18 months have seen another wave of consolidation and takeovers. What are your views on this and do you see Talisman as a takeover candidate?

Companies tend to fail because of rash decisions they make in the good times, more often than difficult choices made in bad times. I think some of the acquiring companies lost sight of the ball and spent too much money to add doubtful value. Much of what was acquired appeared to be mature assets with little upside. The industry is very Darwinian. US companies enjoy better market support than Canadian companies for a host of reasons, including higher debt tolerance. The resulting demise of Canadian companies is a logical outcome.

I believe that Talisman is undervalued, which always leaves open the possibility of a takeover. It is also why we have repurchased over seven million Talisman shares during the past two years. With Talisman's growth potential, high quality reserve base, low debt, Canadian gas assets and long-life North Sea fields, I believe Talisman is worth significantly more than the \$54 per share we paid to buy back shares last year. However, as we continue to deliver superior results and implement our international strategy, I am confident that this will translate into a higher share price.

Q. What about Sudan? What is your view of what shareholders want Talisman to do with the Sudan assets?

Virtually every shareholder I speak to believes that Talisman's presence in Sudan is beneficial to the country. In a desperately poor country, Talisman provides drinking water, medicine, humanitarian assistance and supports education and agricultural projects. We are a voice for peace, constructive engagement and human rights. I believe our corporate social responsibility program is among the best in the sector or indeed in Canada.

Sudan accounts for about 13% of our production, which I believe is acceptable for a company of our size and diversity. However, shareholders dislike complexity and controversy and some portfolio managers tell me that they spend a disproportionate amount of time monitoring events in Sudan.

We are watching political events, which include Sudanese-US cooperation against terrorism, the initiatives of Senator Danforth, resumption of aid from the European Union, the cease-fire in the Nuba Mountains and improvements in the political climate between Sudan and its neighbors. We believe these are positive signs, but change may not come quickly or easily.

Approximately one-third of our shareholder base is in the US and Talisman will continue to comply with US legislation and maintain access to capital markets.

Whatever action we take with our Sudanese assets will be designed to maximize value for our shareholders. Timing, value and contingency plans have been and continue to be evaluated. Whether we stay or sell, I believe we have created value for our shareholders and developed an excellent program of corporate social responsibility.

Q. Both oil and natural gas prices fell considerably last year. What are your views on both the short and long term outlook?

The energy crisis in California a while back should warn us that we can't afford to be complacent. The world has consumed significantly more oil than it has found over the past 30 years. Reduced demand because of the global economic slow down masks tightness in supply and studies suggest that the world may soon approach its maximum productive capacity for crude oil.

I think that the US\$20/bbl oil price average of the past 10 years is not sustainable because this price level does not encourage enough field development and exploration activity to meet demand growth and offset field decline rates. On the other hand, changes in demand for oil depend almost totally on economic growth and are relatively independent of price. We should see higher prices in the future, although in the short term this will depend on OPEC discipline and economic growth. We are assuming US\$20/bbl WTI for this year and expect gradual improvement in 2003.

North American gas supplies are on a treadmill. Historical NYMEX average prices of US\$2/mcf led to large increases in US demand, most of which was met by previously trapped Canadian gas. I think the market has also shown that US\$4/mcf gas prices are not sustainable but neither is US\$2/mcf as drilling budgets are commensurately reduced.

Q. How would you characterize the Petromet and Lundin acquisitions? Do you see any acquisitions in Talisman's future?

Well-chosen acquisitions are a valid way of adding reserves if the acquiring company can add value to the new assets. I would characterize our acquired assets as underdeveloped and tightly strategic.

Looking at comparative values, Petromet appeared to be expensive, even if below later industry acquisitions. To mitigate this, when we acquired Petromet, we immediately forward sold two years worth of production at an average price of about \$7.25/mcf, which generated substantial value for our shareholders. The properties acquired near Edson have low operating costs, high working

interests and significant upside. We drilled a number of very successful wells on Petromet acreage and plan a major drilling program again this year. In addition, we completed a restructuring to combine Petromet assets with some of ours, which has provided substantial financial benefits.

Lundin had large near term projects in Malaysia and Vietnam with significant exploration and development upside and assets in the North Sea which overlapped our existing Talisman properties. We have the financial capability and the international project experience to bring these reserves on stream and further develop our Southeast Asia strategy.

We have a large portfolio of opportunities in the hopper but continually evaluate potential acquisitions to see if they can add value.

Well-chosen acquisitions are a valid way of adding reserves if the acquiring company can add value to the new assets. I would characterize our acquired assets as underdeveloped and tightly strategic.

Q. Any other comments?

I continue to believe that the upstream hydrocarbon business has a bright future. Easily available energy is the bedrock of our society's progress and providing new energy supplies will be a challenge.

Talisman has some of the best people in the industry and certainly among the hardest working. I would like to thank our employees, the management team and the Board of Directors for their continuing high level of contribution.



James W. Buckee
President and Chief Executive Officer
March 5, 2002

STRATEGY

Oil and natural gas demand will continue to increase with population and economic growth. Talisman will concentrate on the upstream hydrocarbon business and is well positioned to create value using its technical and commercial skills.

Talisman will continue to develop its large North American gas business, at the same time growing and adding to its international operations.

Talisman has differentiated itself with its international success. In a period of five years, Talisman has added 211,000 boe/d of production, two-thirds of which has come from outside Canada. Our international assets provide us with large opportunities outside the mature North American sedimentary basins. The Company continues to build new core areas based on materiality, growth potential and competitive advantage.



Ted Bogle
Vice-President,
Exploration

Bob Redgate
Vice-President, Human Resources
and Corporate Services

Jackie Sheppard
Vice-President, Legal and Corporate
Projects, and Corporate Secretary

Jim Buckee
President and
Chief Executive Officer

Talisman owns, operates and controls key assets and infrastructure where they can provide a competitive advantage or add value.

Talisman operates over three-quarters of its production in Canada and the North Sea and is the operator of major projects currently underway in Southeast Asia. This control has contributed to our success, adds value and enables us to reduce costs and control timing.

Talisman will grow through both exploration and acquisitions, choosing opportunities that create significant shareholder value.

Talisman's success has come through a combination of technical, commercial and project management skills. Our strategy uses both acquisition and exploration as a means of maintaining a two to three year inventory of development projects. Over the past five years, approximately two-thirds of Talisman's reserve additions have come through drilling and the remainder through acquisitions.



Bob Mitchell
Vice-President,
Canadian Operations

Nigel Hares
Vice-President, Frontier
and International Operations

Joe Horler
Vice-President,
Marketing

Mike McDonald
Vice-President, Finance
and Chief Financial Officer

BUSINESS ENVIRONMENT

OIL PRICES

West Texas Intermediate (WTI) oil prices traded in the US\$27-29/bbl range before falling sharply later in the year. World oil consumption remained flat in 2001, falling in the third and fourth quarters, largely due to weakness in the OECD economies. WTI prices averaged US\$30.35/bbl in 2000, US\$25.92/bbl in 2001 and have fluctuated between US\$18-23/bbl in early 2002.

Announced production cuts by OPEC have supported oil prices, however, prices could fall if OPEC does not fully implement these cuts or if economic weakness persists. However, the economic slow down has masked the true supply status and renewed economic growth coupled with lower oil investment ultimately will lead to higher prices.

NATURAL GAS

Higher inventory levels, warm weather and weak demand in both the electric power and industrial sector led to a 2% drop in US natural gas demand in 2001, although Canadian gas exports increased by almost 10% to reach 4 tcf for the year.

Henry Hub prices averaged US\$4.27/mcf in 2001, compared to US\$3.89/mcf the previous year. Contract prices in December were US\$2.32/mcf, compared to US\$6/mcf a year earlier. Prices are currently in the range of US\$2.00-2.50/mcf. Coming out of the peak heating season with inventories double the level of a year ago, we believe there is still price uncertainty in the marketplace.

Longer term, it appears that major producers are having difficulty increasing production and new investment is being deferred at these lower prices. Any significant recovery in demand should lead to higher prices.

TALISMAN AND LOW PRICES

- In the current low price environment, Talisman will preserve its strong balance sheet. Planned capital spending of \$2 billion this year will be about equal to expected cash flow. We have considerable flexibility to modify spending as the year unfolds.
- The Company continues to control costs. Talisman's unit operating costs were up by 12% in 2001, reflecting industry pressures, the weak Canadian dollar and non-recurring upgrades in the North Sea. The Company expects unit operating costs in most of our operating areas to fall in 2002.
- Talisman has taken steps to lessen the price risk associated with recent acquisitions through hedging. The Company currently has 17% of its domestic gas production hedged at \$4.76/mcf, well above current market prices. In addition, roughly 16% of our expected oil production has been covered using swaps or three way collars.

CREATING VALUE

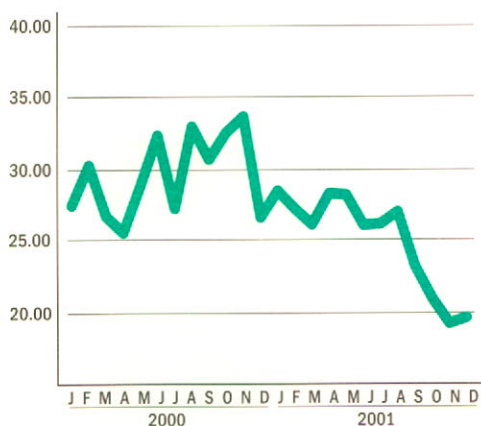
Reserves reflect the future production potential of the Company. Talisman increased its proved reserves by 26% last year and its probable reserves by 27%.

Talisman's proved finding, development and acquisition costs were \$7.08/boe last year, averaging \$6.74/boe over the past five years. Internationally, Talisman added 890 mmbœ of proved reserves over the past five years at a cost of \$5.55/boe. Last year, proved and half probable finding, development and acquisition costs were \$5.75/boe. In 2001, the ratio between the cash received for each boe produced and finding and development costs was 2.9.

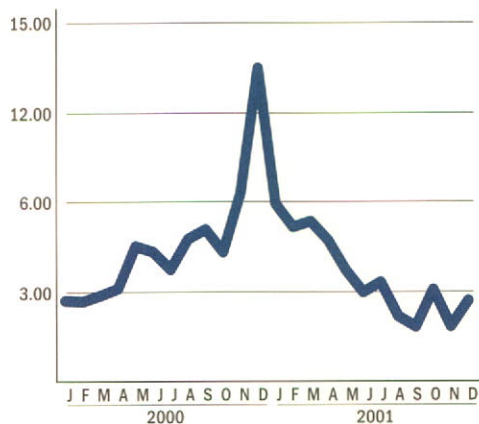
Over the past five years, Talisman has increased reserves per share by an average of 15% annually and production per share by an average of 9%.

Talisman repurchased approximately three million shares in 2001, at an average price of \$54.51/share.

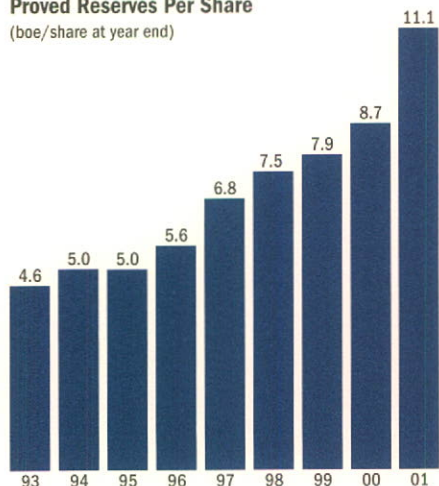
WTI Oil Prices
(US\$/bbl)



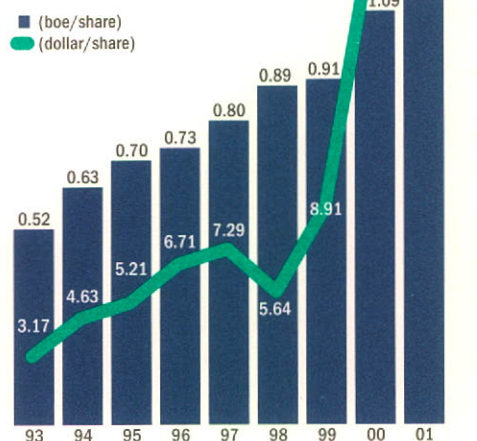
Alberta Spot Natural Gas Prices
(C\$/mcf)



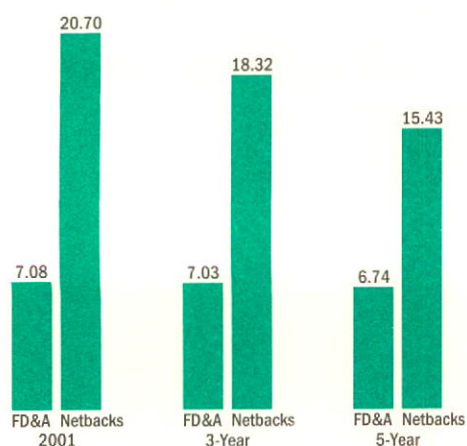
Proved Reserves Per Share
(boe/share at year end)



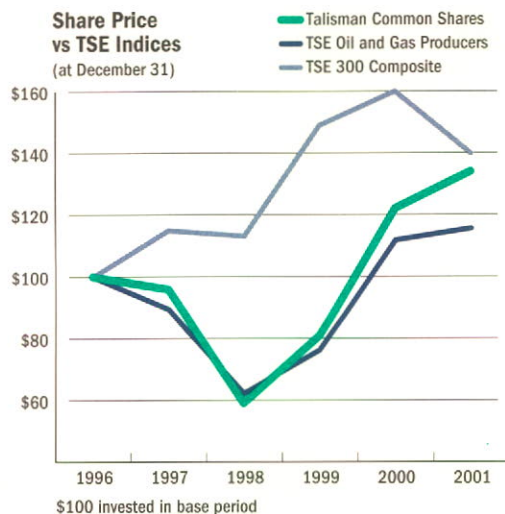
Production Per Share and Cash Flow Per Share

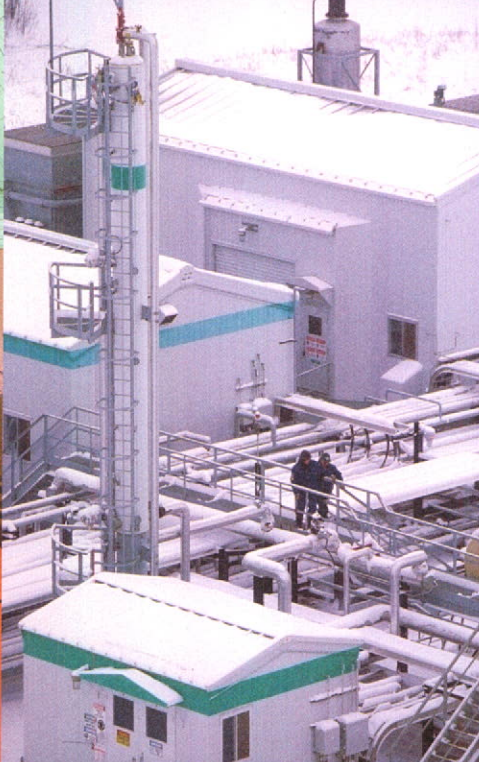


Finding, Development and Acquisition Costs vs. Netbacks (\$/boe)



Share Price vs TSE Indices
(at December 31)





OPERATIONS AND EXPLORATION AREAS

Talisman has strategically made the transition to an international company, exploiting world scale oil and gas opportunities overseas, while increasing its position as one of North America's largest natural gas producers.

CANADA

Talisman's Canadian operations provide a solid base for continuing growth worldwide. Talisman's exploration and development program is focused on large, relatively deep, natural gas prospects. The Company's infrastructure and high level of operatorship enables Talisman to control costs and capital spending. Within Canada, we have a great deal of flexibility to respond to changing economic conditions.

NORTH SEA

Talisman will continue to develop commercial hubs around core operated properties and infrastructure in the North Sea. The Company is creating value through infill drilling, development of satellite fields, low risk exploration, cost reduction and third party tariff receipts.



EMERGING AREAS

Trinidad

In 2001, significant oil and gas discoveries were drilled at Kairi-1 and Canteen-1 in Block 2c where Talisman has a 25% interest. Last year, Talisman booked 61 mmbbls of probable oil reserves and 133 bcf of probable gas reserves associated with these discoveries. During 2001, the Company tendered successful bids to acquire additional exploration acreage. Capital spending in 2002 is expected to be \$110 million, with up to 11 exploration and appraisal wells.

Algeria

Talisman holds a 2% interest in the Ourhoud field and a 35% interest in the MLN area of Block 405. Development of both these non-operated areas is underway. In 2001, expenditure on appraisal and development was \$63 million. In 2002, capital spending is estimated to be \$70 million, with first production expected in 2003.

Colombia

Talisman holds a 100% interest in the Acevedo Block situated in the Upper Magdalena Valley. During 2001, the Company obtained a 30% non-operated interest in the Mundo Nuevo and Tangera Blocks on trend with the giant Cusiana field. In 2002, the Company plans to complete a seismic program and process existing seismic data. Talisman has the option to drill an exploration well that may commence prior to year end. Capital spending in 2002 is expected to be approximately \$30 million.

SOUTHEAST ASIA

Talisman's strategy is focused on continued development of its very large reserves in the fast growing gas business in Indonesia, Malaysia and Vietnam, as well as oil opportunities in each of these countries.

Talisman also has an operated gas discovery offshore Papua New Guinea.

SUDAN

Talisman will continue to develop oil fields in Blocks 1a and 2a and explore large targets in Block 4. Talisman has extensive community development programs and believes that its continued presence benefits all the people of Sudan.



CANADA

RESULTS FOR 2001

Canada accounts for 48% of Talisman's production and will continue to be a key producing area over the longer term. The Company has 9.8 million gross (4.6 million net) undeveloped acres with a two to three year rolling prospect inventory.

Production averaged 201,000 boe/d, an increase of 5% over 2000. Natural gas production averaged 809 mmcf/d, a 7% increase from the previous year. Plant turnarounds, facility constraints, inclement weather and regulatory issues affected production.

During the year, Talisman acquired Petromet Resources for \$826 million. The acquisition added 291 bcf of proved reserves, 90 mmcf/d of low operating cost production and over 200 drilling locations. Talisman sold forward two years of Petromet's production to lessen the price risk.



2001 SUMMARY

- Drilled 241 natural gas wells and 258 oil wells with a 90% success rate
- Exploration and development spending totalled \$876 million, adding 91 mmboe of proved reserves at \$9.06/boe and replacing 125% of production
- 75% of spending was directed toward natural gas, with major programs in the Greater Arch, Alberta Foothills and Edson areas
- Conducted an active asset rationalization program, including 86 transactions involving \$341 million in assets
- Acquired over 330,000 net acres of land
- Unit operating costs were up 21% due to higher third-party processing costs and power costs

CANADA

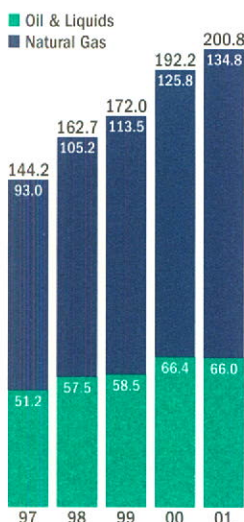


OUTLOOK FOR 2002

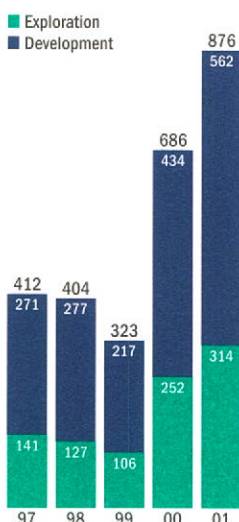
- Significant gas exploration and development programs in the Greater Arch, Alberta Foothills and Edson areas and an oil exploitation program in Chauvin
- Natural gas production of 820-840 mmcf/d
- Oil and liquids production of 63,000-65,000 bbls/d
- Unit operating costs are expected to decrease
- Expected exploration and development spending of \$745 million, with 75% directed at natural gas projects
- Participation in over 560 wells

Talisman is also actively involved in an exploration joint venture in the Appalachian Basin of the US. The Company believes there is considerable potential to develop this region into a core gas area. During 2001, a number of drilling locations were identified and several wells are planned for 2002. Talisman will also explore the potential for coal bed methane in Western Canada. The Company also owns a significant interest in several oil sands leases in Alberta which have commercial potential.

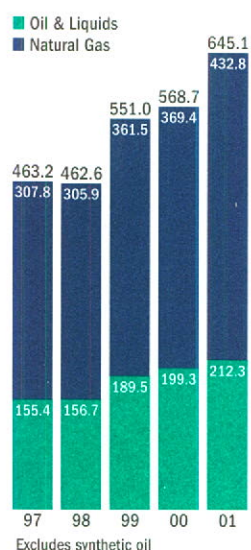
Production
(mboe/d)



Exploration & Development Expenditures
(millions of dollars)



Proved Reserves
(mmboe)



NORTH SEA

RESULTS FOR 2001

A number of successes during 2001 set the stage for expected production growth in 2002 and 2003. Production of 128,800 boe/d was 3% less than 2000 due to upgrades on the Ross/Blake production vessel and pipeline renewal at Beatrice. Other production delays were due to limited resources available in the busy North Sea market and specific project issues. On completion of facilities upgrades in the fourth quarter, production averaged 158,000 boe/d.

Successful development programs, a new oil discovery at Kildrummy and the Lundin acquisition resulted in booking 78 mmboe of proved reserves during the year, replacing 166% of production, at a cost of \$10.19/boe.



2001 SUMMARY

- Exploration and development spending totalled \$633 million
- Discovery of the Kildrummy field, drilling success on the Blake flank, at Beechnut and at Ross
- Start up of Blake and Beaulieu production
- Oil production of 111,000 bbls/d and gas production of 108 mmcf/d
- Rig modifications for extended reach, horizontal wells at Piper, Claymore, Tartan and Halley
- Unit operating costs of \$9.03/boe, up 9% due to the general industry environment and lower volumes

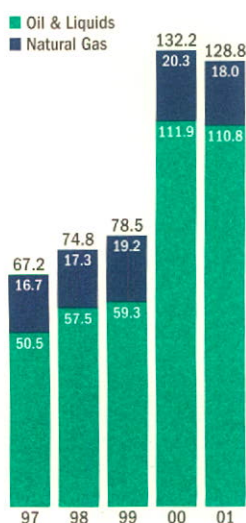


OUTLOOK FOR 2002

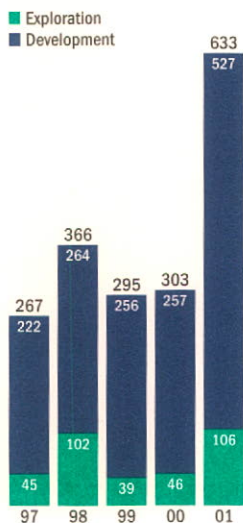
- Oil production of 144,000-155,000 bbls/d and natural gas production of 110-120 mmcf/d
- Expected unit operating costs of \$8.50/boe
- Production start up from the Hannay field in the first quarter and Halley in the second quarter
- Participation in 34 development wells and eight exploration wells

Talisman's extensive infrastructure and diverse inventory of opportunities provide confidence in continuing growth. Exploration and development spending is expected to be \$595 million including development of the Kildrummy and Halley oil fields and significant programs at Ross/Blake and in the Flotta Catchment Area.

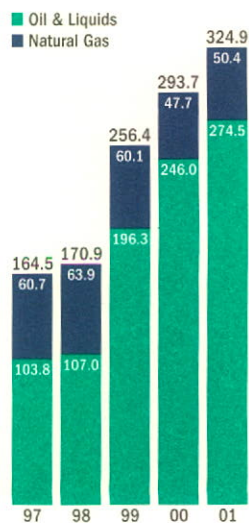
Production
(mboe/d)



Exploration & Development Expenditures
(millions of dollars)



Proved Reserves
(mmboe)



SOUTHEAST ASIA

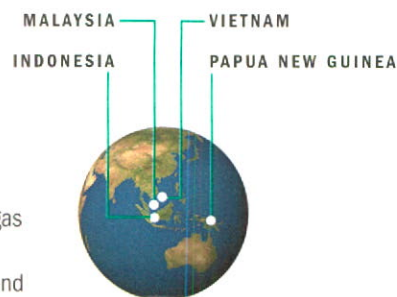
RESULTS FOR 2001

The highlight in Indonesia was the ongoing, successful appraisal of the giant Suban field in the Corridor PSC. An independent reserves audit of Suban assigned 3.9 tcf (gross) of proved plus probable reserves to the field, of which 2 tcf were in the proved category. Talisman has booked half of its working interest share of the 2 tcf as proved, with the remainder to be booked upon signing of additional sales contracts. A gas sales agreement to Singapore was finalized and negotiations for additional gas sales commenced. Increased sales to the Duri Steamflood project are expected to start in the fourth quarter of 2002. Sales to Singapore Power are anticipated at the end of 2003.

Talisman drilled a number of field extension wells in Ogan Komering and conducted a successful fracture stimulation program in Tanjung Raya.

In August 2001, Talisman acquired Lundin's interests in Malaysia and Vietnam. The primary asset is a 41% interest in the PM3 Commercial Arrangement Area (CAA) administered by Malaysia and Vietnam. A large exploration and development project in PM3 CAA is underway and is expected to produce over 40,000 boe/d net to Talisman in 2004.

Through this acquisition, Talisman acquired an operated undeveloped gas discovery offshore Papua New Guinea and is also positioned to pursue development of small oil fields in Malaysia and Vietnam, as well as extending Talisman's position in the rapidly growing Southeast Asian gas market.



2001 SUMMARY

Indonesia

- Production of 93 mmcf/d of gas and 18,600 bbls/d of liquids
- Successful appraisal drilling and testing at Suban
- Proved reserve additions of 68 mmboe at a cost of \$1.22/boe
- Signed gas sales agreements for Corridor gas with Singapore Power and Duri Steamflood project

Malaysia and Vietnam

- Production of 2,300 bbls/d
- Successful appraisal of the East Bunga Raya discovery and an unsuccessful appraisal of the Ophir discovery
- Proved oil and gas reserve additions of 117 mmboe at a cost of \$3.62/boe

OUTLOOK FOR 2002

Indonesia

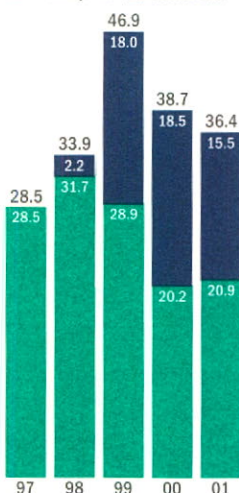
- Production of 95-100 mmcf/d of gas and 15,000-17,000 bbls/d of liquids
- Expected exploration and development spending of approximately \$90 million, primarily on development of Corridor gas facilities

Malaysia and Vietnam

- Production of 5,000-7,000 bbls/d
- Approval for development of the East Bunga Raya discovery
- Continuation of the development project for PM3 CAA with production in the fourth quarter of 2003
- Expected exploration and development spending of approximately \$215 million

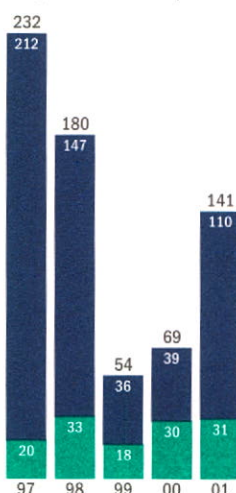
Production (mboe/d)

■ Oil & Liquids ■ Natural Gas



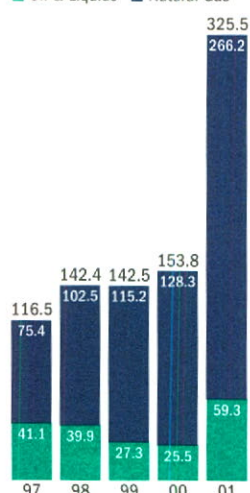
Exploration & Development Expenditures (millions of dollars)

■ Exploration ■ Development



Proved Reserves (mmboe)

■ Oil & Liquids ■ Natural Gas



SUDAN

RESULTS FOR 2001

Talisman has a 25% interest in the Greater Nile Oil Project consisting of four blocks in the Muglad Basin and a 1,500 km pipeline from the producing fields to Port Sudan on the Red Sea. Production continues to exceed expectations and at year end 2001 had reached 230,000 bbls/d on a gross basis with the development of additional fields and debottlenecking of facilities.

Talisman supported a number of corporate social responsibility programs in Sudan in 2001, reflecting its commitment to the International Code of Ethics for Canadian Business. With the assistance of stakeholders, we set objectives in the areas of human rights, community participation, employee rights, ethical business conduct and health, safety and environment.

Highlights of our 2001 program include:

- Participation in stakeholder consultation
- Human rights training for 16 senior GNPOC security staff
- Developing a system to document the compensation process in the concession
- Funding a US\$2 million community development program
- Successfully advocating an increase in GNPOC's community development budget from US\$1.9 million in 2001 to US\$5.9 million in 2002
- Advocating for fair distribution of oil revenues and the development of a transparent reporting process by the Government of Sudan

2001 SUMMARY

- Production of 53,300 bbls/d
- Exploration and development spending totalled \$117 million
- Proved reserve additions of 35 mmbbls, replacing 180% of production
- Production start up of the Garaad, Khairat and Bamboo fields
- Exploration success at Shelungo in Block 4

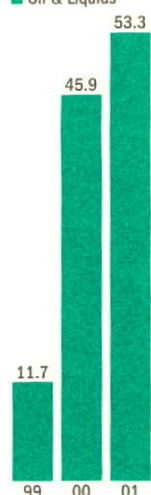
OUTLOOK FOR 2002

- Production of 55,000-59,000 bbls/d
- Start up of the Munga field development in mid-2002
- Commence water injection at the Unity field
- Expected exploration and development spending of \$115 million
- Participation in 38 wells, including seven exploration wells in Block 4



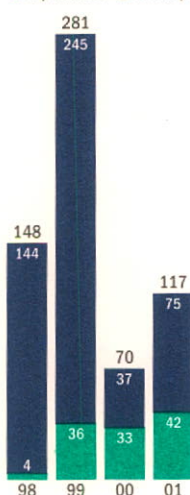
Production
(mboe/d)

■ Oil & Liquids



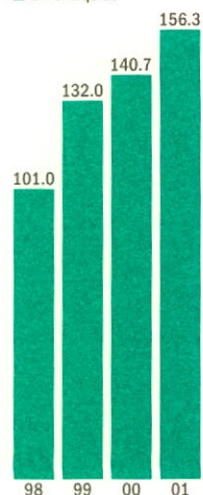
Exploration & Development Expenditures
(millions of dollars)

■ Exploration ■ Development









Proved Reserves
(mmbbls)

■ Oil & Liquids



COMMITMENT TO STAKEHOLDERS

Talisman recognizes the value of strong relationships with its stakeholders. Our commitment includes: adding value for our shareholders, effectively managing our balance sheet, maintaining the safety and well being of our employees and continuing to be a responsible neighbour.

 <p>value</p>	<p>Shareholders</p> <p>Talisman's primary goal is to create value for our shareholders. We accomplish this by increasing per share reserves, production and ultimately cash flow and net income. Talisman's objective is to grow production per share by at least 10% annually. This growth is backed by an extensive development inventory and driven by competitive finding, development, acquisition and operating costs.</p>
 <p>balance</p>	<p>Debt holders</p> <p>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 less than two times and debt to debt-plus-equity of 40%.</p>
 <p>investment</p>	<p>Employees</p> <p>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.</p>
 <p>commitment</p>	<p>Communities</p> <p>Talisman is a good neighbour in communities where we operate. We routinely consult with residents and landowners and meet or exceed environmental standards in all areas where we have operational control. Talisman supports a wide variety of charities including health, environmental, educational, social and cultural causes.</p>
 <p>responsibility</p>	<p>Governments</p> <p>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.</p>
 <p>marketplace</p>	<p>Customers and Suppliers</p> <p>Talisman's relationships with its customers and suppliers are an important part of our business. Talisman values competitive, fair and open dealings with its service providers and clients.</p>



HEALTH, SAFETY AND ENVIRONMENT

Talisman strives to achieve a workplace that is safe and healthy and carries out its activities in an environmentally responsible fashion. All levels of the organization are responsible for health, safety and environment (HSE) matters, and performance is discussed by senior management and reviewed by the Board of Directors at regular meetings.

Safety and environmental audits verifying compliance with Company standards and regulatory requirements are ongoing in Canada, the UK, Southeast Asia and Sudan. Talisman's crisis management and emergency response plans are regularly tested, ensuring that we are well prepared to respond to operational and other emergencies worldwide.

Prior to the acquisition of Petromet Resources, comprehensive due diligence was conducted to identify, assess and properly account for potential environmental liabilities. During this review, no material liabilities were discovered and the assets were integrated into Talisman's Health, Safety and Environment Management System. More than 100 domestic asset transactions were assessed in 2001 to screen for environmental liabilities. The Company's new assets in Malaysia and Vietnam are under review with the intent to align their current safety management systems with Talisman's standards.

In Canada, we continue to make excellent progress against routine reclamation and abandonment obligations. The Company spent approximately \$7.5 million on site cleanup in Canada in 2001. Over 150 inactive wells were abandoned during the year and application made for 148 wellsite reclamation certificates.

Talisman continues to support the Canadian government's Voluntary Challenge and Registry program (VCR) reporting

emissions and emission reduction initiatives and was awarded "Silver" status under the Program. In the latest VCR report for year 2000, Talisman reported total emissions of 2,179 kilotonnes of carbon dioxide equivalent and production carbon intensity of 0.174 tonnes per cubic meter of oil equivalent. Talisman has identified, and will pursue, economic capital projects that will reduce overall carbon intensity by 4% over the next four years.

Environmental assessments and related consultations were conducted in the UK. A pipeline replacement project was completed at Beatrice. The project implementation plan was specifically designed to avoid disruption of marine mammals in the ecologically important Inner Moray Firth. Several offshore platforms in the UK participated in an innovative, voluntary flare emissions trading scheme through 2001. This cooperative government-industry initiative was established in order to evaluate the practical aspects of offshore flare emissions trading.

In Indonesia, Talisman's operations at Ogan Komering and Tanjung Raya received national recognition for the quality and effectiveness of their HSE programs. Only 19 of 143 companies active in the oil and gas and geothermal sectors received the Pertamina HSE Award in 2001. Over 340 staff and contractors were trained in safety and loss prevention in Indonesia. Construction of the Ogan Komering gas conservation project is largely complete, with commissioning expected early in 2002. The local emissions reductions associated with this project amount to 410 kilotonnes of carbon dioxide equivalent annually.

Talisman helped establish a framework for HSE standards that will guide further development of the Greater Nile Petroleum Operating Company (GNPOC) HSE program in Sudan. Oil spill response exercises were completed at the GNPOC marine terminal on the Red Sea.

In Colombia, an Environmental Management Plan and associated community outreach program were completed in support of operations on the Acevedo Block. Over 50 community consultation workshops were held, attracting approximately 1,500 local residents. Talisman is implementing a number of social investment programs, including conservation and reforestation initiatives, water supply projects and environmental education.

During 2001, there were no environmental or safety related charges brought against the Company.

Lost Time Injury Frequency (per one million man hours)

	2001	2000
Canada	0.95	1.15
United Kingdom	4.55	5.23
Indonesia	0.92	3.45
Sudan	1.45	2.47

CORPORATE SOCIAL RESPONSIBILITY

Talisman conducts its activities in a socially responsible manner. This means working together with stakeholder groups to identify constructive solutions to shared problems. We believe that our operations bring direct benefits to the communities in which we work, such as creation of jobs, expansion of local infrastructure or support of community projects that create opportunities for a better future. As a responsible company, we also observe and promote ethical business practices and advocate respect and tolerance by and for all people.

In 2001, we continued to integrate corporate social responsibilities and objectives into our broader management systems. Building on the framework created in 2000, we worked to improve our processes and refine our objectives based on the feedback received from multiple stakeholder groups. We are also conducting pre-project risk assessments and including corporate social responsibility programs in our international operating agreements in new exploration areas such as Colombia.

The 2001 Corporate Social Responsibility Report details these developments and includes an in depth review of our activities in Sudan and Colombia in the areas of human rights, community participation, employee rights, ethical business conduct and health, safety and environment. A copy of this report is available on the Talisman website at www.talisman-energy.com or by contacting our head office in Calgary.

CORPORATE CONTRIBUTIONS

Talisman continues to administer a donations program, which provided over \$4.5 million to community projects and causes in Canada, the UK, Sudan, Indonesia and Colombia.

In Canada, Talisman contributed \$500,000 towards a Magnetic Resonance Imaging unit at the Alberta Children's Hospital in Calgary and, together with our employees, made a record breaking contribution to the United Way of almost \$480,000. In the UK, Talisman committed £222,000 to fund the main play and toy area at the new Aberdeen Children's Hospital. This is the largest single donation received by the hospital to date. Talisman also sponsored numerous environmental initiatives including the development of a cetacean research laboratory and dolphin research in the Cromarty Firth as well as the Royal Society for the Protection of Birds. In Indonesia, projects supported included the Sampang Kalimantan Refugees Fund and the Yayasan Usaha Mulia (YUM) program, a foundation which runs a community health centre focusing on treating tuberculosis patients and administering a children's nutrition program.

In Sudan, major projects during the year included an agricultural program that resulted in the tilling and preparation of approximately 6,500 acres of farm land in the GNPOC concession, the continued stocking and administration of medical clinics and funding to support the development of entrepreneurial skills among women in the internally displaced peoples camps of Mayo and Shagara in Khartoum.

Talisman provides funding for two separate community development programs, our own 100% funded Talisman program and a GNPOC program with our consortium partners. Talisman funding, in accordance with ownership percentage, accounts for 25% of the total GNPOC budget. In 2001, Talisman funded US\$475,000 of the US\$1.9 million GNPOC community budget.

2001 Corporate Contributions (thousands of C\$)

Canada	750
United Kingdom	272
Southeast Asia	16
Sudan	3,200
Colombia	320
Total	4,558



MANAGEMENT'S DISCUSSION AND ANALYSIS

TALISMAN'S PERFORMANCE IN 2001 AND OUTLOOK FOR 2002

Talisman was very successful in a number of areas in 2001. The Company posted record high cash flow, production, capital spending and reserve additions. The Company participated in significant oil discoveries in Trinidad that are expected to be on production in 2004. The acquisition of Lundin Oil created a new core area in offshore Malaysia/Vietnam with a major development currently underway. The acquisition of Petromet expanded Talisman's Canadian gas activity near Edson. The Blake field in the North Sea was commissioned and averaged 24,000 bbls/d (net to Talisman) in December. Development approval was obtained for the MLN field in Algeria.

Commodity prices fell over the course of the year. On a boe basis, Talisman's realized price fell from \$34.74 in 2000 to \$32.91 in 2001.

Annual production grew 2.5%; lower than the 5-10% growth target announced previously. Both Canada and the North Sea experienced production delays, largely due to operational constraints and weather related issues. In the fourth quarter, production averaged 460,000 boe/d.

The Company spent \$1.9 billion on exploration and development during the year. A total of 637 successful wells were drilled and 336 mmboe of proved reserves were added before acquisitions (replacing 221% of production) at a cost of \$5.34/boe. Including acquisitions, proved reserve additions were 462 mmboe (304% of production) at a cost of \$7.08/boe.

Operating costs were up 12% in 2001 to \$5.79/boe, largely due to industry wide conditions such as increased maintenance, power and processing costs.

This discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements on pages 30 to 52 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. All comparative percentages are between the years ended December 31, 2001 and December 31, 2000, unless stated otherwise. Reported production represents Talisman's working interest share unless otherwise noted. Selected quarterly unaudited financial data, including product netbacks, may be found on pages 62 and 63 of this annual report.

RECORD CASH FLOW

Cash flow of \$2.5 billion¹; \$18.48/share

Net income of \$786 million; \$5.65/share

- Lower oil prices offset higher natural gas prices
- Increased production volumes
- Improved hedging results
- Higher royalties mainly from natural gas
- Higher production increased operating costs
- Higher DD&A expense resulted from increased volumes and recent acquisitions
- Dry hole and exploration expense were higher due to the increased capital spending program

2002 OUTLOOK

As the Company enters 2002, the outlook for commodity prices is uncertain, however, Talisman is strong financially. The 2001 year end debt of \$3 billion was about 1.2 times 2001 cash flow. The Company's major objectives for 2002 include:

- Production of 450,000-480,000 boe/d with growth from liquids in the North Sea and natural gas in Canada
- \$2 billion in exploration and development spending, an increase of 6% over 2001
- Unit operating costs of \$6/boe

Net Income and Cash Flow Variance (millions of dollars)

2000 Net income	906
Favorable (unfavorable)	
Cash flow variance	
Oil and liquids prices	(483)
Natural gas prices	209
Oil and liquids volumes	69
Natural gas volumes	40
Hedging	385
Royalties	(43)
Other revenue	(25)
Operating expense	(119)
Interest expense	(4)
Current taxes (inc. PRT)	55
General and administration	(12)
Other	9
Total cash flow variance	81
Non-cash items	
Depreciation, depletion and amortization expense	(161)
Dry hole expense	(36)
Exploration expense	(48)
Future taxes (inc. PRT)	62
Other	(18)
Total non-cash items	(201)
2001 Net income ¹	786

¹ Net income, cash flow and cash flow per share are before preferred security charges of \$24 million, net of tax (\$42 million, before tax). The components of cash flow are set out in note 14 to the Consolidated Financial Statements.

2001 SUMMARY

	2001	2000	% Change
Cash flow ¹	2.5 billion	2.4 billion	3
Net income	0.8 billion	0.9 billion	(13)
Cash flow per share ¹	18.48/share	17.51/share	6
Net income per share	5.65/share	6.41/share	(12)
Production	419 mboe/d	409 mboe/d	2.5
Average sales price	32.91/boe	34.74/boe	(5)
Operating costs	5.79/boe	5.19/boe	12
Exploration and development spending	1.9 billion	1.2 billion	60
Proved reserve additions (inc. acquisitions)	462 mboe	232 mboe	99
Finding, development and acquisition costs	7.08/boe	5.72/boe	24
Production per share	1.13 boe/share	1.09 boe/share	4

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

DAILY PRODUCTION VOLUMES

	2001	2000	1999
Oil and liquids (mbbls/d)			
Canada	66.0	66.4	58.5
North Sea	110.8	111.9	59.3
Southeast Asia ¹	20.9	20.2	28.8
Sudan	53.3	45.9	11.7
	251.0	244.4	158.3
Natural gas (mmcf/d)			
Canada	809	755	681
North Sea	108	122	115
Southeast Asia ¹	93	111	108
	1,010	988	904
Total (mboe/d @ 6:1)	419	409	309

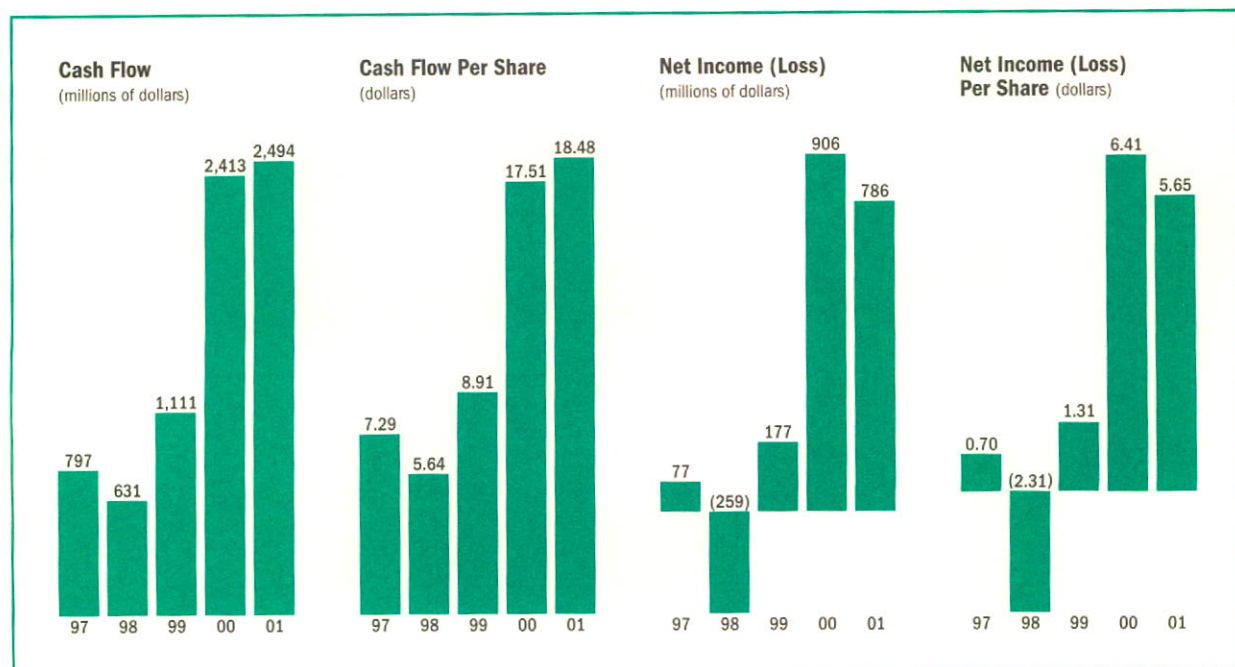
¹ Includes operations in Indonesia and Malaysia/Vietnam.

Talisman's daily production volume increased 2.5% to 419,270 boe/d with growth coming from natural gas in Canada and oil in Sudan. Total gas production averaged more than 1 bcf/d and oil and liquids averaged 251,014 bbls/d.

Talisman's natural gas production in Canada averaged 809 mmcf/d, up 7% from 2000. The growth in gas production came

in part from the Petromet acquisition and drilling success (241 successful gas wells), partly offset by production delays and natural decline. Since its acquisition, Petromet contributed an additional 90 mmcf/d of low operating cost production as well as a large portfolio of over 200 drilling targets. Extended plant turnarounds, facility constraints, wet weather and regulatory process delays affected Canadian production. Crude oil and liquids production remained steady at 66,056 bbls/d.

Talisman's North Sea liquids production for the year averaged 110,828 bbls/d and 135,050 bbls/d in the fourth quarter. Liquids production was impacted by adverse weather, drilling delays and both scheduled and unscheduled shutdowns. The Ross FPSO was off station three months for Blake modifications and in June production restarted at Ross and the Blake field was commissioned. The combined average production rate in December for Blake and Ross was 31,500 bbls/d. Beatrice restarted production on completion of repairs to the pipeline in July 2001 and averaged 4,965 bbls/d in December. Beatrice averaged 10,068 bbls/d in January 2002 with the addition of the Attic 3 well in late December. Beaulieu came on stream during February 2001 and was producing 6,600 bbls/d in December. The Hannay and Halley developments are now scheduled to commence production in the first and second quarters of 2002, respectively.



The Company's operations in Indonesia, Malaysia and Vietnam have been combined into a Southeast Asia segment due to the similarity of economic characteristics and fiscal regimes and potential for future integration of the natural gas markets. Talisman's Southeast Asia natural gas production, which is currently sourced from Indonesia, averaged 93 mmcf/d, down from 111 mmcf/d in 2000, reflecting reduced demand from Caltex, currently the sole purchaser of Corridor gas production. Caltex sales were below the 100 mmcf/d minimum take provision of the contract for much of the year which resulted in Talisman recording \$8 million of deferred revenue. Sales to Caltex increased to 98 mmcf/d in December. In addition, Talisman's reported working interest in Corridor's natural gas production reverted to 36% from 40% effective January 1, 2001, as the Pertamina "carry" was paid out. Southeast Asia liquids production averaged 20,873 bbls/d. Indonesian liquids production decreased 8% to 18,599 bbls/d as a result of natural declines. Block PM3 Commercial Arrangement Area (CAA) Phase 1 production in Malaysia/Vietnam has contributed approximately 6,250 bbls/d since the Lundin acquisition in August 2001 for an annualized daily rate of 2,273 bbls/d.

Capacity expansions and the tie in of new wells resulted in a 16% increase in Sudan oil production which averaged 53,257 bbls/d in 2001. Gross production capacity now exceeds 230,000 bbls/d with the debottlenecking of the central processing facilities.

PRICES

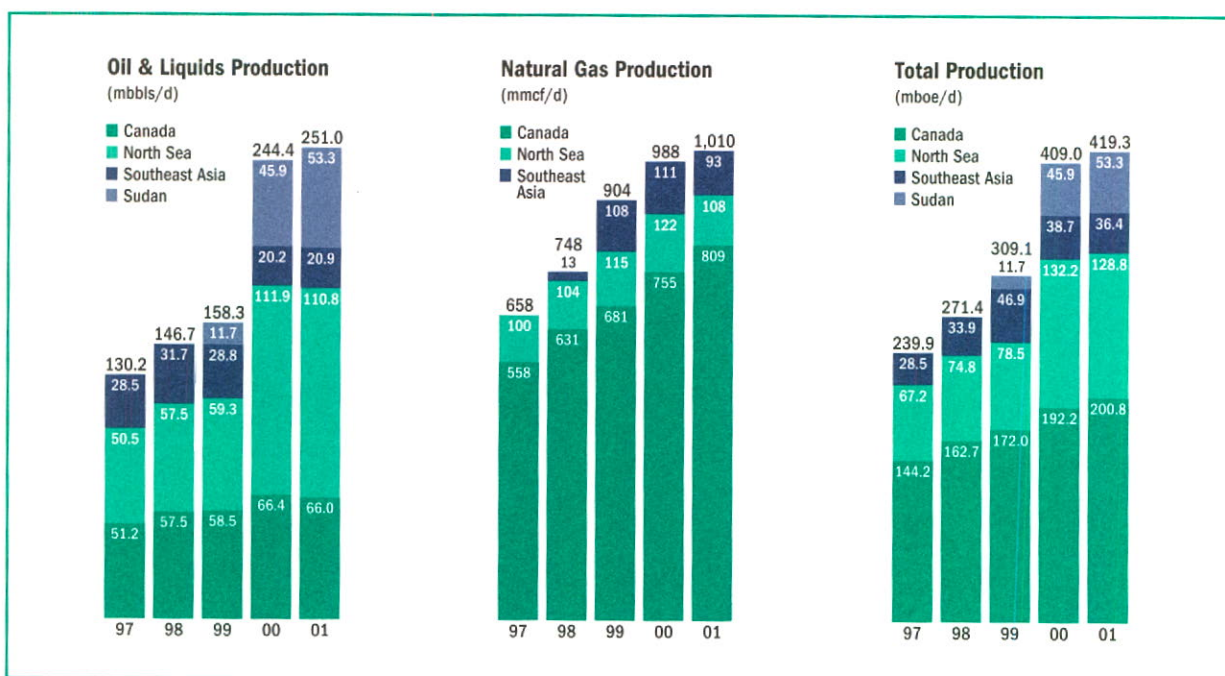
	2001	2000	1999
Oil and liquids (\$/bbl)			
Canada	30.80	37.64	23.85
North Sea	36.07	40.38	28.35
Southeast Asia ¹	35.97	42.50	26.20
Sudan	32.66	38.52	31.24
	33.99	39.48	26.55
Natural gas (\$/mcf)			
Canada	5.39	4.66	2.54
North Sea	4.35	3.58	3.06
Southeast Asia ¹	4.80	5.64	3.18
	5.22	4.63	2.68
Company (\$/boe)	32.91	34.74	21.42

¹ Includes operations in Indonesia and Malaysia/Vietnam.

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

Talisman's realized oil price decreased 14% as world crude oil prices fell in the second half of 2001. The Company's natural gas price, although up from last year, was also impacted by the decrease in demand in the US in the latter part of the year.

Talisman's natural gas price averaged \$5.39/mcf in Canada, an increase of 16% over 2000. Natural gas prices in North America saw a steep decrease from the highs experienced at the end of



2000 as North American demand fell by 2% in 2001. Fourth quarter natural gas prices averaged \$3.20/mcf, compared to \$7.36/mcf for the same period in 2000.

Talisman's crude oil and liquids price in Canada decreased 18% to \$30.80/bbl in 2001, consistent with the drop in West Texas Intermediate (WTI), which averaged US\$25.92/bbl for 2001 versus US\$30.35/bbl in 2000. The Company's fourth quarter oil and liquids price in Canada averaged \$21.58/bbl, which was further impacted by a drop in the average price received for the Company's natural gas liquids and the seasonal increase in crude oil quality differentials.

North Sea oil prices averaged \$36.07/bbl in 2001. Brent, the North Sea crude oil reference price, averaged US\$24.46/bbl in 2001, compared to US\$28.39/bbl in 2000 as the Brent-WTI differential improved. Talisman's average natural gas price increased 22% to \$4.35/mcf, in line with UK spot prices.

Minas, a key Asian crude oil reference price, averaged US\$24.06/bbl, down from US\$28.53/bbl in 2000. Talisman's Southeast Asia crude oil price averaged \$35.97/bbl. Natural gas prices decreased 15% to \$4.80/mcf (net of pipeline tariffs of \$0.96/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.

Talisman's average Sudan oil sales price for its Nile Blend was \$32.66/bbl in 2001, a decrease of 15% from 2000. Nile Blend is priced off Minas.

The Company's average sales prices are before a hedging gain of \$0.16/bbl (2000 \$3.44/bbl loss, 1999 \$1.39/bbl loss) and a loss of \$0.02/mcf (2000 \$0.20/mcf loss, 1999 \$0.08/mcf loss).

ROYALTIES

Average royalty rates (%)	2001	2000	1999
Oil and liquids			
Canada	22	23	21
North Sea	5	4	2
Southeast Asia ¹	30	31	41
Sudan	39	39	23
	18	18	17
Natural gas			
Canada	25	23	19
North Sea	11	4	3
Southeast Asia ¹	5	6	5
	22	19	15
Company	20	18	16

¹ Includes operations in Indonesia and Malaysia/Vietnam.
Royalties rates do not include synthetic oil or pipeline operations.

Within Canada, the overall royalty rate for 2001 averaged 24% (2000 – 23%). Royalties increased with higher natural gas prices. The overall average rate is dependent on commodity prices, the type of oil or natural gas produced, applicability of freehold royalties, overriding royalties or royalty holidays and the location of production.

North Sea crude oil and liquids royalties increased to 5% as a result of an increase in production from fields subject to royalties. Royalties are only payable on fields with development consent prior to April 1982, however, an agreement was reached with the UK government granting royalty relief at Beatrice, which facilitated its redevelopment. North Sea natural gas royalties increased as a result of the high royalty rate associated with the Lundin carried interest in the Brae field. Talisman expects the 2002 royalty rate on North Sea natural gas to average 16%.

Natural gas royalties in Southeast Asia averaged 5% during 2001. Crude oil royalties averaged 30%, including the 31% royalty paid on the Malaysia/Vietnam production. 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 in Indonesia, Malaysia and Vietnam depend on future cost recovery pools, production and prices. Refer to note 1(g) of the Consolidated Financial Statements for additional information on royalties for Southeast Asia.

Under the production sharing agreement in Sudan, crude oil production is allocated 40-45% to upstream cost recovery with the remaining production allocated to profit oil. The government's incremental share of profit oil ranges from 60-80%, depending on production levels. If production which is allocated to cost recovery exceeds the amount required to recover capital and operating costs, such excess reverts to the government and is referred to as excess cost oil. A portion of the government's share of oil constitutes the amount owed by the Company for income taxes. The government's remaining share of excess cost oil and profit oil is treated as a royalty on the Company's working interest share of production. Talisman also has a 25% interest in the Sudan pipeline and marine terminal, which will revert to the government on the later of September 1, 2014 and the achievement of a 16.2% real internal rate of return. The Company's share of pipeline tariffs charged to the government reduces reported royalties.

During 2001, higher production in Sudan offset the impact of lower prices, which kept the overall royalty rate constant at 39%. The royalty rate in the fourth quarter of 2001 increased as a result of the annualized tariff adjustment on oil transported for the government on the pipeline. Talisman expects the 2002 royalty rate to average 29%, however, the actual royalty rate will depend on costs, production volumes and oil prices.

OPERATING COSTS

	2001	2000	1999
Oil and liquids (\$/bbl)			
Canada	5.22	4.17	3.61
North Sea	10.06	9.13	11.58
Southeast Asia ¹	7.13	5.40	4.98
Sudan	3.40	3.80	5.24
	7.15	6.50	7.02
Natural gas (\$/mcf)			
Canada	0.67	0.56	0.51
North Sea	0.46	0.57	0.76
Southeast Asia ¹	0.47	0.39	0.40
	0.63	0.54	0.53
Company (\$/boe)	5.79	5.19	5.14

¹ Includes operations in Indonesia and Malaysia/Vietnam.
Operating costs do not include synthetic oil or pipeline operations.

Operating costs in Canada averaged \$4.41/boe (2000 \$3.64/boe). Low operating costs from the acquired Petromet properties have helped mitigate the increase in the Company's natural gas operating costs. Canadian crude oil and liquids unit operating costs increased 25%. The increases in unit operating

costs were the result of increases in processing costs, power charges and maintenance workovers and a generally higher cost environment.

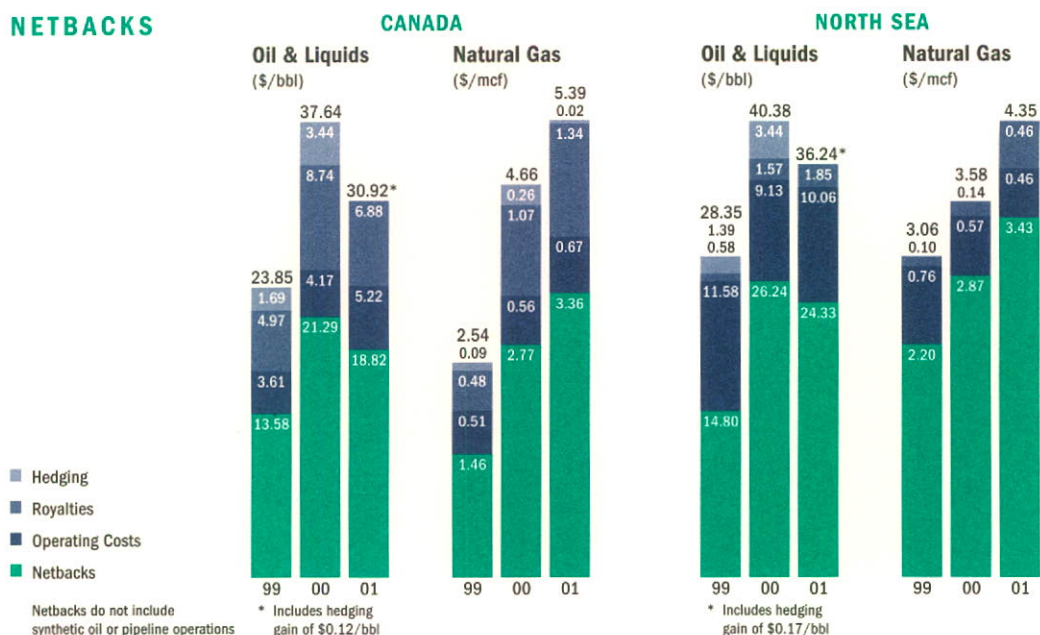
On a per unit basis, North Sea operating costs increased 9% to \$9.03/boe, primarily as a result of lower production due to extended shutdowns at Ross and Beatrice. Unit operating costs are expected to be approximately \$8.50/boe in 2002.

Operating costs for Southeast Asia averaged \$5.29/boe, up from \$3.93/boe in 2000. Operating costs for Corridor natural gas increased to \$0.47/mcf from \$0.39/mcf in 2000, as a result of lower production levels. Southeast Asia operating costs for crude oil and liquids increased to \$7.13/bbl due to increased maintenance activities in the Indonesia blocks, decreased production and the inclusion of four months of operating costs from Malaysia/Vietnam, which averaged \$7.42/bbl.

In Sudan, unit operating costs decreased to \$3.40/bbl due to cost reduction programs and higher production levels in 2001. A large portion of the pipeline's operating costs is fixed and unit operating costs decrease with higher production.

Overall global operating costs are expected to approximate \$6.00/boe in 2002.

NETBACKS



DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSE

	2001		2000		1999	
	\$/boe	\$ million	\$/boe	\$ million	\$/boe	\$ million
Canada	7.98	585	6.79	478	5.87	369
North Sea	11.86	558	10.59	512	9.88	283
Southeast Asia ¹	7.00	93	5.87	83	4.20	72
Sudan	3.98	77	4.72	80	5.42	23
Company	8.58	1,313	7.70	1,153	6.62	747

¹ Includes operations in Indonesia and Malaysia/Vietnam.

In Canada, the depreciation, depletion and amortization (DD&A) rate per boe increased due primarily to the Petromet acquisition, addition of the midstream assets in 2000 and higher land costs. In the North Sea, the rate is up due in part to the high DD&A charged at Beatrice; the success of the drilling program at Beatrice occurred late in the year and accordingly did not significantly reduce the 2001 rate. The Southeast Asia rate increased as a result of lower natural gas volumes and minor property impairments in Indonesia of \$8 million. PM3 CAA in Malaysia/Vietnam contributed \$6 million to DD&A for a rate of \$7.63/bbl. Production increases and reserve additions reduced the DD&A rate in Sudan. The Sudan pipeline is being depreciated on a straight-line basis over 15 years. Goodwill amortization of

\$10 million associated with the Petromet acquisition is included in the Canadian DD&A. The amortization of goodwill will cease January 1, 2002 after which time goodwill will be subject to an annual impairment review based on fair value.

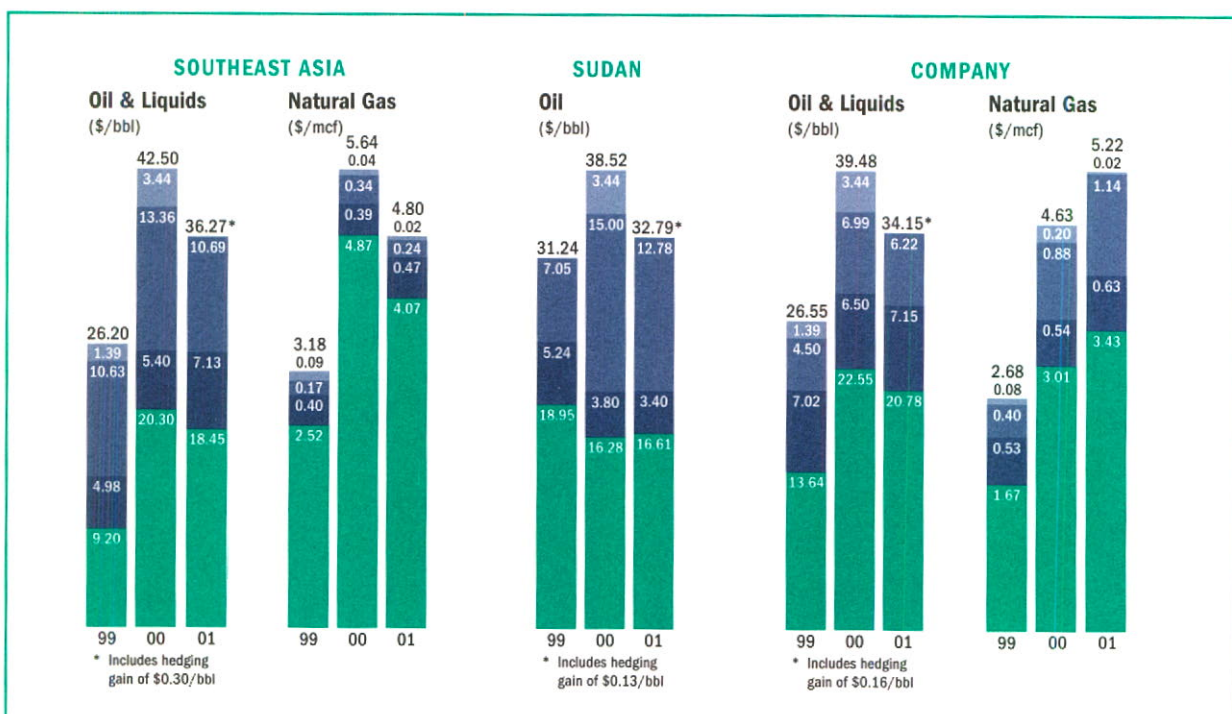
DRY HOLE EXPENSE

(millions of dollars)	2001	2000	1999
Canada	54	29	12
North Sea	21	15	27
Southeast Asia ¹	8	17	2
Sudan	16	3	2
Other ²	14	13	8
	113	77	51

¹ Includes operations in Indonesia and Malaysia/Vietnam.

² Other includes Algeria (2001 – \$5 million; 2000 – \$13 million; 1999 – \$3 million), Trinidad (2001 – \$9 million, 2000 – \$nil, 1999 – \$5 million).

Dry hole expense increased to \$113 million as a result of increased drilling activity. Dry hole expense in Canada increased to \$54 million as a result of writing off 38 wells. A significant portion of the 2001 expense relates to the Spitfire exploration well in Trinidad and the Timsah well in Sudan. In Southeast Asia, the Ophir 3 well was written off on the Malaysian Block PM305 while a well at Buchan in the North Sea was also expensed as a dry hole.



EXPLORATION EXPENSE

(millions of dollars)	2001	2000	1999
Canada	69	54	39
North Sea	30	13	8
Southeast Asia ¹	8	7	8
Sudan	11	8	12
Other	29	18	12
	147	100	79

1 Includes operations in Indonesia and Malaysia/Vietnam.

Exploration expense consists of geological and geophysical costs, seismic, land lease rentals and indirect exploration expenses. There has been a steady increase in the Company's exploration spending from 1999 to 2001. Canada and the North Sea have experienced large increases due in part to additional exploration work on recently acquired assets. A major regional 3D seismic survey was completed in 2001 covering most of the Flotta Catchment area in the North Sea.

CORPORATE EXPENSES

(millions of dollars)	2001	2000	1999
G&A expense	108	95	70
Interest expense	139	136	120
Capitalized interest	19	16	41
Preferred securities charges, net of tax	24	22	13
Other revenue	82	99	46
Other expense (income)	25	15	(61)

General and administrative (G&A) expense increased reflecting expanding investment and operations. On a per unit basis, G&A was \$0.71/boe in 2001, compared to \$0.63/boe in 2000.

Debt levels increased due to the two corporate acquisitions completed during the year. As a result, interest on long-term debt, including capitalized interest, increased to \$158 million. Interest capitalized in 2001 is associated with the Blake Oil Field Development in the North Sea and the Malaysia/Vietnam PM3 CAA Development.

Preferred securities charges, net of taxes have been charged directly to retained earnings and are deducted from net income to determine net income per share. Preferred security charges, before tax, totaled \$42 million (2000 – \$40 million).

Other revenue decreased to \$82 million due to a reduction in reported pipeline and custom treating revenues. Other expenses

(income) for 2001 includes gains on property disposition of \$11 million and foreign exchange gains of \$2 million. The early repayment of the Corridor project loan facility in August 2001 resulted in the recognition of a non-cash expense of \$17 million due to the expensing of associated deferred financing costs and foreign exchange losses. The detailed breakdown of other revenue and other expenses (income) can be found in notes 11 and 12 to the Consolidated Financial Statements.

Income Taxes

The Company's effective tax rate for 2001, after deducting Production Revenue Tax (PRT), was 35%. The effective tax rates for 2001 and 2000, compared to 1999, are lower due to the elimination of non-deductible DD&A expense as a result of the Future Tax accounting standard adopted at the beginning of 2000. The Company's future tax provision and future tax liability have been reduced by \$30 million as a result of a reduction in the Alberta corporate tax rate, effective April 1, 2001. See note 13 of the consolidated financial statements for additional information on the Company's income taxes.

Current income tax expense increased to \$342 million in 2001. Current tax in Canada and Indonesia increased relative to 2000 as the tax pools were drawn down in these countries in prior periods. The increase in Canada was mitigated by the formation of the Talisman Energy Canada partnership in which substantially all Canadian operations are now conducted. Current taxes in the North Sea decreased as a result of lower commodity prices in 2001.

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.

Effective Income Tax Rate

(millions of dollars)	2001	2000	1999
Income before tax	1,349	1,586	366
Less PRT	149	150	31
	1,200	1,436	335
Income tax expense			
Current	342	334	49
Future	72	196	109
	414	530	158
Effective income tax rate (%)	35	37	47

Capital Spending

(millions of dollars)	2001	2000	1999
Canada	976	813	240
North Sea	664	527	728
Southeast Asia ¹	149	69	54
Sudan	117	70	281
Other	115	50	42
	2,021	1,529	1,345

¹ Includes operations in Indonesia and Malaysia/Vietnam.
Excludes corporate acquisitions.

In Canada, Talisman continued to focus on natural gas exploration and development supplemented by low risk oil exploitation. Of the \$976 million of capital spending in Canada, exploration and development spending accounted for \$876 million, with \$562 million spent on development projects and \$314 million on exploration. Approximately three-quarters was weighted towards natural gas projects. Capital expenditures focused on prospects in the Alberta Foothills, Greater Arch and Edson areas. Net property acquisitions of \$100 million accounted for the remainder of the \$976 million in capital spending.

The drilling program in Canada had a 90% success rate, culminating in 241 gas wells and 258 oil wells. The Company purchased over 330 thousand net acres of undeveloped land at a cost of \$63 million (\$191/acre). Talisman seeks to maintain a rolling two to three year drilling inventory in Western Canada.

During 2001, Talisman focused on low risk development projects in the North Sea, spending \$664 million. The modifications to the Ross FPSO were completed allowing the Blake development to be tied in. Six production wells were drilled at Blake and an appraisal well was drilled on the Blake flank. Three sidetrack wells were drilled at Beatrice and one each at Piper, Claymore and Tartan were drilled at year end. The single Hannay development well was drilled and the reservoir is better than expected. Drilling rig refurbishments and upgrades have been completed on the Piper, Tartan, Claymore and Fulmar/Halley platforms to allow extended reach drilling. Pipeline repairs and replacement were completed at Beatrice.

Capital expenditures totaled \$149 million in Southeast Asia with \$85 million spent in Indonesia and \$64 million in Malaysia/Vietnam. Indonesian capital spending focused on the Corridor Gas project and additional development drilling at OK Block where eight successful oil wells were drilled. In 2001, the appraisal of the Suban field at Corridor continued with the drilling of the Suban 5, 6 and 7 gas wells.

In Malaysia/Vietnam, the focus was on the PM3 CAA development project. Within PM3 CAA, a successful appraisal well was drilled confirming a previously discovered oil leg in East Bunga Raya 1. Planning for the development of the East Bunga Raya extension to the project is underway. On PM305, an appraisal well on the small Ophir discovery was plugged and abandoned and further field evaluation work is underway. Talisman also completed the acquisition of a 33.15% interest in the Vietnam Block 46 Cai Nuoc area for \$9 million, which contains an extension of the East Bunga Kekwa-Cai Nuoc field.

Sudan capital spending totaled \$117 million with \$42 million on exploration and \$75 million on development drilling and facilities. During 2001, 49 wells were drilled resulting in 43 successful oil wells.

Talisman spent a total of \$115 million in other exploration and development areas participating in 17 wells, of which 14 were successful. In 2001, the Company spent \$31 million in Trinidad resulting in significant oil and gas discoveries on the offshore Block 2c where Talisman holds a 25% interest. Additional appraisal drilling and development planning is underway. Within Algeria, development continued on the Ourhoud field and development approval was obtained for the MLN field and construction contracts awarded. A total of \$63 million was spent in Algeria.

Reserve Replacement

During 2001, including acquisitions, Talisman replaced 304% of production with reserve replacement reaching 462 mmboe. In 2000, 156% of production was replaced for a total of 232 mmboe. Over the last five years, the Company has replaced approximately 250% of production.

Finding, Development and Acquisition Costs

Proved F&D costs (\$/boe)	2001	3-year average	5-year average
Canada	9.06	7.45	6.73
International	3.96	4.83	5.26
Total	5.34	5.77	5.83
Total including acquisitions	7.08	7.03	6.74

Finding, development and acquisition (FD&A) costs are an important measure of efficiency for an oil and gas company. Talisman's worldwide five-year average FD&A cost was \$6.74/boe. The five-year average finding and development (F&D) cost before acquisitions was \$6.73/boe in Canada and \$5.26/boe internationally. Including acquisitions, Talisman's five-year averages were \$8.55/boe and \$5.55/boe for Canada and international, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Talisman's long-term debt at year end was \$3 billion, up \$1.3 billion, due to corporate acquisitions completed in 2001. For additional information regarding the Company's liquidity and capital resources, refer to note 6 of the Consolidated Financial Statements.

The Company maintains a shelf prospectus under which it may issue up to \$500 million of medium term notes in aggregate in the Canadian public debt market. The shelf prospectus expires in May 2002 and the Company expects to renew its filing prior to such expiry.

In December 2001, the Company issued \$60 million of medium term notes under the shelf prospectus. A further \$325 million of medium term notes were issued in January 2002 and, in February 2002, the Company completed a private debt placement in the US for a further \$159 million (US\$100 million). The majority of the proceeds from these issues were used to repay a portion of the acquisition facility which is due to be repaid by August 2002. The remaining \$230 million of the acquisition facility and \$135 million of anticipated 2002 refinancing requirements is expected to be refinanced from a combination of existing bank lines or other sources.

Management expects that the 2002 anticipated cash flow will be sufficient to fund the \$2 billion of planned capital expenditures.

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 2001, Talisman met the debt to cash flow target with a ratio of 1.2:1. Debt to debt-plus-equity was 41% at the end of 2001.

In 2001, the Company declared its first dividend since 1991 on its common shares at an annual rate of \$0.60/share. The dividend policy is reviewed annually by the Board of Directors.

Pursuant to a normal course issuer bid, the Company repurchased three million common shares for \$166 million in 2001 (\$54.51/share). Future repurchases will depend on available cash and share price performance. The Company plans to renew the normal course issuer bid in 2002, which will permit the Company to repurchase up to an additional 5% of its outstanding common shares.

Talisman's investment grade corporate credit and senior unsecured long-term debt credit ratings remain unchanged with Dominion Bond Rating Service ("DBRS"), Moody's Investor Service, Inc. ("Moody's") and Standard & Poor's ("S&P") at BBB (high), Baa1 and BBB+ respectively. Due to the subordinated nature of the preferred securities, they have a lower rating. DBRS, Moody's and S&P have rated the preferred securities as Pfd-3(high), Baa3 and BBB-, respectively.

Financial Leverage and Coverage Ratios¹

	2001	2000	1999
Long-term debt ² to cash flow ³ (times)	1.2	0.7	2.0
Interest coverage – cash flow ^{3,4} (times)	19	19	8
EBITDAX ⁵ (millions of dollars)	2,912	2,902	1,352
Interest coverage – EBITDAX ⁶ (times)	18	19	8
Long-term debt to debt-plus-equity ² (%)	41	32	38

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, amortization, impairment writedowns, dry hole and exploration expense.

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

FINANCIAL INSTRUMENTS AND COMMODITY CONTRACTS

The Company may manage its exposure to fluctuations in foreign exchange rates, interest rates, electricity costs and commodity prices in part through the use of financial instruments. Financial hedge contracts resulted in a net increase to recorded sales of \$8 million (2000 – \$377 million decrease; 1999 – \$106 million decrease). The majority of the hedging gain 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, 2001, including their respective fair values, are detailed in note 9 of the Consolidated Financial Statements.

The Company has entered into commodity price derivative contracts that cover approximately 15% of anticipated production for 2002. A portion of these contracts consist of three-way collars which allow the Company to participate in commodity prices up to a ceiling price while mitigating downward price risk by providing a premium over market should prices fall below a certain level.

The three-way collars will not qualify for hedge accounting in 2002 and will be recorded at fair value with changes in their fair value reflected in income. This could result in additional volatility in reported quarterly net income, however, no significant volatility is expected on the 2002 annual results since most contracts expire within one year.

An additional 120,500 mcf/d, or 14% of anticipated 2002 Canadian natural gas production is committed under forward sales contracts as summarized in note 10 of the Consolidated Financial Statements.

The Company's foreign exchange contracts covering a notional amount of US\$211 million expired in 2001 and resulted in a loss of \$10 million. No other foreign exchange contracts are currently outstanding.

The Company has established a system of internal controls to minimize risks associated with its derivatives program and credit risk associated with derivatives counterparties. The Company does not have a risk of material losses as a result of the financial situation of Enron Canada or its parent company.

CHANGE IN FUNCTIONAL CURRENCY

Effective January 1, 2002, the Company adopted the US dollar as its functional currency due to the increased exposure to the US dollar as a result of the growth in international operations and the increased interconnectivity of the Canadian and US gas markets. Prior to January 1, 2002, the functional currency of the Company was the Canadian dollar. It is not practicable to estimate the impact to future net income for the year ending 2002 due to the uncertainty of the future movements in the US dollar exchange rate vis-à-vis the Canadian dollar and UK Pound Sterling. It is management's intention to continue to display the Company's financial results in Canadian dollars.

NEWLY ISSUED ACCOUNTING STANDARD

Effective January 1, 2002, in accordance with a newly issued Canadian Institute of Chartered Accountants (CICA) accounting standard, the Company will no longer defer and amortize the gains or losses on foreign currency denominated long-term debt as described in note 1(i) of the Consolidated Financial Statements. Such gains or losses will be reflected in the Income Statement in the period incurred. As a result of the Company adopting the US dollar as its functional currency in 2002, as discussed previously, foreign exchange gains and losses on long-term debt will relate to non-US dollar denominated debt. It is not practicable to estimate the impact to future net income for the year ending 2002.

RISKS AND UNCERTAINTIES

Talisman is exposed to operational risks inherent in exploring for, developing and producing crude oil and natural gas. There are numerous uncertainties in estimating oil and gas reserves and in projecting future production, costs and expenses and the results, timing and costs of exploration and development projects. Total amounts or timing of production may vary significantly from reserves and production estimates. 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 although such

insurance will not provide coverage in all circumstances. 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 is reviewed at each Board of Directors' meeting. Long-term abandonment and restoration provisions have been recorded in accordance with generally accepted accounting principles. Although Talisman has entered into various commodity contracts which require it to post security in the event of a credit rating downgrade below investment grade, Talisman does not consider such credit requirements to be material in aggregate.

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, economic sanctions, 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. There have been isolated, politically motivated attacks on the oilfields and pipeline in Sudan. Minor production interruptions occurred as a result of pipeline attacks. Although security measures are in place to reduce the risk of future attacks, the oilfields and pipeline may be targets of future attacks.

The US has imposed comprehensive economic sanctions against Sudan. These sanctions apply to certain Sudan related transactions and activities in the US, activities by US individuals and entities wherever located and transactions by US and non-US persons involving US origin goods, technology or services. With limited exceptions, the sanctions prohibit "US persons" from engaging in or facilitating virtually all direct or indirect commercial, financial or trade transactions of any nature with Sudan or the Government of Sudan, including its entities and agents. Talisman (Greater Nile) B.V. ("TGNBV"), a subsidiary of Talisman, holds a 25% interest in the Greater Nile Petroleum Operating Company Limited ("GNPOC") and the Greater Nile Oil Project. GNPOC, which operates the Greater Nile Oil Project, and Sudapet, which is the national oil company of Sudan and holds a 5% interest in GNPOC and the Greater Nile Oil Project, are treated as the Government of Sudan for purposes of the sanctions. Although neither TGNBV nor the Company is a

"US person" and therefore are not bound by the sanctions, new laws or regulations could be enacted or the scope of the sanctions could be expanded in a manner that could have an adverse effect upon the Company's business and financial condition. Talisman has 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. The Canadian government has not imposed unilateral economic sanctions on Sudan. In addition, in 2001 the United Nations removed its sanctions on Sudan. Those sanctions were diplomatic and not economic.

In June and July 2001, the US House of Representatives and the US Senate, respectively, passed different versions of a bill which is commonly referred to as the *Sudan Peace Act*. The legislation is intended to increase pressure on the Sudanese government to make progress toward a peace agreement. The bill passed by the US House of Representatives contains provisions which direct the President to exercise his authority under the *International Emergency Economic Powers Act* to prohibit any entity directly engaged in the development of oil or gas in Sudan from: (1) raising capital in the United States; or (2) trading its securities (or depository receipts with respect to its securities) in any US capital market. The bill passed by the US Senate did not contain such provisions. In order to reconcile these two versions of the bill, the House and Senate will need to convene a conference committee. It is not known whether the conferees will include capital market sanctions in any final bill, or if included in the final bill, whether the US Congress will pass the bill and the President sign it into law. If legislation is passed and it becomes evident that the Company's access to US capital markets may be restricted, the Company will take whatever measures it considers necessary to maintain appropriate access to capital markets. It is possible, however, that circumstances could arise where the assets carrying value would not be fully recoverable.

From time to time, Talisman is the subject of litigation arising out of its operations. Damages claimed under such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial results.

A suit which seeks class action status was filed against the Company by the Presbyterian Church of Sudan and others on November 8, 2001 in the United States District Court for the Southern District of New York under the *Alien Tort Claims Act* and has been subsequently amended. The Republic of the Sudan is named in the suit. The suit seeks, among other things, a declaration that Talisman Energy Inc. has violated international

law in connection with oil exploration and drilling activities in Sudan an injunction permanently restraining Talisman from continuing to cooperate with the Government of Sudan, and unquantified compensatory and punitive damages. Talisman intends to fully defend itself against this suit.

OUTLOOK

Talisman enters 2002 in strong financial and operational condition. As a result of its large development inventory, \$1.9 billion in capital spending, a successful drilling program and acquisitions in 2001, Talisman is positioned for strong production growth in 2002.

Lower commodity prices have been factored into the outlook for 2002; assuming commodity prices of US\$2.45/mcf NYMEX natural gas and US\$20.00/bbl WTI oil, cash flow in 2002 is expected to be sufficient to fund the capital spending program. In addition, management expects operating costs to be approximately \$6.00/boe and production to increase over 2001 between 7-15% in 2002. Capital spending is expected to increase to \$2 billion to develop major new projects in Southeast Asia, Algeria and Trinidad and maintain active programs in Canada, the North Sea and Sudan. Net debt is anticipated to remain at the same level as at the end of 2001.

Canada

The Company's strategy in Canada is to maintain an emphasis on natural gas supplemented by low risk oil projects. Of the planned \$745 million to be spent in Canada, three-quarters will be for natural gas exploration and development. The Company plans to participate in over 560 wells in Canada in 2002. Natural gas production is expected to increase from 1-4%, while liquids production is expected to average approximately 64,000 bbls/d.

North Sea

Capital spending in the North Sea will continue to focus on low risk development projects. Total capital spending in the North Sea is expected to be approximately \$595 million in 2002. Rig refurbishments undertaken in 2001, along with additional development drilling at Clyde, Blake, Piper, Tartan and Claymore, the completion of Halley and Hannay developments and a full year of production at Beatrice, Ross and Blake, will have a positive effect on production in 2002. Accordingly, North Sea production is expected to increase between 25-35% to approximately 165,000-175,000 boe/d with the anticipated drilling success and reduced facilities downtime. Unit operating costs are expected to decline to approximately \$8.50/boe in 2002 with the higher forecasted production.

Southeast Asia

The 2002 capital spending budget for Southeast Asia is \$305 million. Malaysia/Vietnam will account for \$215 million and Indonesia \$90 million. The continued development of PM3 CAA will account for the majority of the Malaysia/Vietnam spending. In Indonesia, the focus of the capital spending will be on facilities at Corridor to support additional gas contract commitments. In 2001, the Company signed a 19 year sales agreement for additional natural gas deliveries from Corridor to the Duri Steamflood. In addition, the Company signed a 20 year agreement to sell natural gas to Singapore Power. The project to build the required pipeline to meet the Singapore Power gas commitment is progressing with an expected project completion date set for late 2003. The additional gas sales to the Duri Steamflood are expected to start at the end of 2002 after the completion of a planned expansion of the Duri Steamflood. Natural gas production is expected to be 95 to 100 mmcf/d in 2002. Liquids production is anticipated to increase to 23,000 bbls/d with a full year of Malaysia/Vietnam production offsetting a small decrease in Indonesia.

Sudan

In Sudan, development continues to account for more than two-thirds of the \$115 million capital budget in 2002, with a majority to be spent on facilities and drilling at Bamboo and Munga. A total of 18 exploration and 20 development wells are planned. Production is expected to increase between 5-10% as a result of the drilling program and previous facility upgrades. Operating costs are expected to increase to approximately \$4.50/bbl with the increased use of electrical submersible pumps.

Rest of World

The planned program in other parts of the world includes capital spending of \$225 million including \$110 million to develop the recent oil and gas discoveries in Trinidad with first production expected in 2004, \$70 million to advance the Algeria Ourhoud and MLN projects towards production in 2003 and \$30 million to conduct a seismic survey and possible exploration drilling in Colombia.

Commodity prices

North American natural gas prices retrenched during 2001 and the outlook for 2002 is uncertain. Approximately 25% of Talisman's 2002 Canadian natural gas production is committed under both fixed price physical contracts and derivative instruments. Approximately 145 mmcf/d has been fixed at an average price of

\$4.76/mcf and an additional 62.5 mmcf/d are under three-way collars which allow the Company to participate in gas prices up to an average \$4.12/mcf and will provide for a \$0.91/mcf premium should the index average below \$2.71/mcf.

The Company sold forward 49,000 bbls/d of crude oil in 2001. Under the crude oil contracts for 20,000 bbls/d, Talisman will receive US\$24.00/bbl Brent and for the remaining 29,000 bbls/d the contracts allow Talisman to participate in oil prices up to US\$29.50/bbl WTI and will provide for a US\$3.50/bbl premium should the index average below US\$21.50/bbl. The commodity price derivatives and physical sales contracts outstanding at December 31, 2001 are detailed in notes 9 and 10 of the Consolidated Financial Statements.

Sensitivities

Talisman's financial performance is affected by factors such as changes in production volumes, commodity prices and exchange rates. The estimated impact of these factors on 2002 financial performance is summarized in the following table and is based on a WTI oil price of US\$20.00/bbl and a NYMEX natural gas price of US\$2.45/mcf.

Approximate impact in 2002

(millions of dollars)	Net Income	Cash Flow ¹
Volume changes		
Oil – 1,000 bbls/d	3	6
Natural gas – 10 mmcf/d	2	8
Price changes ²		
Oil – US\$1.00/bbl	83	97
Natural gas (Canada) ³		
– C\$0.10/mcf	10	17
Exchange rate changes		
C\$ decrease by US\$0.01	34	34
£ increase by C\$0.035	(5)	(1)

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

2 The impact of commodity contracts in place at year end 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.

REPORT OF MANAGEMENT

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 a majority 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



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

February 8, 2002

AUDITORS' REPORT

To the Shareholders of Talisman Energy Inc.

We have audited the Consolidated Balance Sheets of Talisman Energy Inc. as at December 31, 2001 and 2000 and the Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the years in the three year period ended December 31, 2001. 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 Canadian and US generally accepted auditing standards. 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, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles. We also report that, in our opinion, these principles have been applied, except for the change in the method of accounting for income tax as explained in note 13 to the Consolidated Financial Statements, on a basis consistent with that of the preceding year.



Ernst & Young LLP
Chartered Accountants

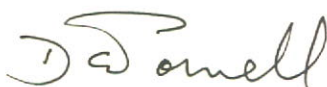
Calgary, Canada
February 8, 2002

CONSOLIDATED BALANCE SHEETS

(December 31)

(millions of Canadian dollars)	2001	2000
Assets		
Current		
Cash (note 14)	17	76
Accounts receivable	654	843
Inventories (note 3)	99	103
Prepaid expenses	29	20
	799	1,042
Accrued employee pension benefit asset (note 4)	51	52
Other assets	128	81
Goodwill (notes 1(o) and 2)	467	—
Property, plant and equipment (note 5)	9,461	7,501
	10,107	7,634
Total assets	10,906	8,676
Liabilities		
Current		
Accounts payable and accrued liabilities	869	1,031
Income and other taxes payable	146	250
Current portion of long-term debt (note 6)	189	30
	1,204	1,311
Deferred credits	71	44
Provision for future site restoration (note 10)	619	498
Long-term debt (note 6)	2,794	1,703
Future income taxes (note 13)	1,989	1,455
	5,473	3,700
Contingencies and commitments (notes 9 and 10)		
Shareholders' equity		
Preferred securities (note 7)	431	431
Common shares (note 8)	2,831	2,849
Contributed surplus	77	77
Retained earnings	890	308
	4,229	3,665
Total liabilities and shareholders' equity	10,906	8,676

On behalf of the board:



David E. Powell
Chairman of the Board

See accompanying notes.



Dale G. Parker
Director

CONSOLIDATED STATEMENTS OF INCOME

(Years ended December 31)

(millions of Canadian dollars except per share amounts)	2001	2000	1999
Revenue			
Gross sales	5,047	4,836	2,318
Less royalties	989	946	389
Net sales	4,058	3,890	1,929
Other (note 11)	82	99	46
Total revenue	4,140	3,989	1,975
Expenses			
Operating	946	827	603
General and administrative	108	95	70
Depreciation, depletion and amortization	1,313	1,153	747
Dry hole	113	77	51
Exploration	147	100	79
Interest on long-term debt (note 5)	139	136	120
Other (note 12)	25	15	(61)
Total expenses	2,791	2,403	1,609
Income before taxes	1,349	1,586	366
Taxes (note 13)			
Current income tax	342	334	49
Future income tax	72	196	109
Petroleum revenue tax	149	150	31
	563	680	189
Net income	786	906	177
Preferred security charges, net of tax	24	22	13
Net income available to common shareholders	762	884	164
Per common share (Canadian dollars)			
Net income	5.65	6.41	1.31
Diluted net income	5.55	6.32	1.30
Average number of common shares outstanding (millions)	135	138	125
Diluted number of common shares outstanding (millions)	137	140	126

See accompanying notes.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Years ended December 31)

(millions of Canadian dollars)	2001	2000	1999
Retained earnings, beginning of year	308	212	48
Net income	786	906	177
Adoption of new accounting policy (note 13)	—	(670)	—
Common share dividend	(81)	—	—
Purchase of common shares	(99)	(118)	—
Preferred security charges, net of tax	(24)	(22)	(13)
Retained earnings, end of year	890	308	212

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Years ended December 31)

(millions of Canadian dollars)	2001	2000	1999
Operating			
Net income	786	906	177
Items not involving current cash flow (note 14)	1,561	1,407	855
Exploration	147	100	79
Cash flow	2,494	2,413	1,111
Deferred gain on unwound hedges	52	—	—
Changes in non-cash working capital (note 14)	(177)	322	(179)
Cash provided by operating activities	2,369	2,735	932
Investing			
Corporate acquisitions (note 2)	(1,213)	—	(79)
Capital expenditures			
Exploration, development and corporate	(1,912)	(1,194)	(1,013)
Acquisitions	(186)	(431)	(482)
Proceeds of dispositions			
Resource properties	47	81	133
Investments	—	—	3
Changes in non-cash working capital	52	(407)	380
Cash used in investing activities	(3,212)	(1,951)	(1,058)
Financing			
Long-term debt repaid	(568)	(1,294)	(1,423)
Long-term debt issued	1,617	781	1,250
Common shares (purchased) issued	(117)	(173)	19
Common share dividends	(81)	—	—
Preferred securities issued	—	—	428
Preferred security charges	(42)	(40)	(24)
Deferred credits and other	(25)	(36)	84
Changes in non-cash working capital	—	—	(151)
Cash (used in) provided by financing activities	784	(762)	183
Net increase (decrease) in cash	(59)	22	57
Cash (bank indebtedness), beginning of year	76	54	(3)
Cash, end of year	17	76	54

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in millions of Canadian dollars (" \$" or "C\$") except as noted)

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

The Consolidated Financial Statements include the accounts of Talisman and its subsidiaries. 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. Any impairment loss is the difference between the carrying value of the asset and its net recoverable amount (undiscounted).

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, Malaysian, Vietnamese and Sudanese royalties

Indonesian, Malaysian, Vietnamese and Sudanese operations conducted jointly with the respective national oil companies ("Pertamina", "Petronas", "Petrovietnam" and "Sudapet") are reflected in the Consolidated Financial Statements based on Talisman's working interest in such activities. All other government stakes, other than income taxes, are considered to be royalty interests. Royalties on production from Indonesian, Malaysian, Vietnamese 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 is 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, electricity costs 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

Talisman uses the liability method to account for income taxes. 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.

m) Revenue recognition

Revenues associated with the sale of crude oil, natural gas and liquids represents the sale value of the Company's share of petroleum production during the year (the entitlement method). Differences between production and amounts sold are not significant. Revenue received under take-or-pay gas sales contracts in respect of undelivered volumes is accounted for as deferred income. In accordance with contract provisions, Talisman received upstream capital cost recovery priority in Sudan, which resulted in an accumulation of deferred oil revenue. In 2001, all deferred oil revenues have been realized and commencing in the second quarter of 2001, upstream capital cost recovery reverted 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 exercise of options is credited to share capital.

o) Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired. In accordance with a newly issued accounting standard, the amortization of the goodwill related to the Petromet acquisition will cease January 1, 2002 and no goodwill amortization has been recorded for the Lundin acquisition. Goodwill is subject to ongoing annual impairment reviews, or as economic events dictate, based on the fair value of reporting units. The initial impairment review will be made based on values at January 1, 2002.

p) Diluted earnings per share

The Company uses the treasury method for calculating diluted earnings per share. This method assumes that any proceeds from the exercise of a convertible instrument would be used to purchase common shares at the average market price during the period. During the periods presented, outstanding stock options are the only instruments that are dilutive to earnings per share.

q) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2001.

2. Corporate Acquisitions

Petromet Resources Limited

In May 2001, Talisman acquired Petromet Resources Limited ("Petromet"), an oil and gas exploration and development company, for \$765 million and long-term debt assumed of \$57 million. The acquisition has been accounted for using the purchase method and the results have been included in these financial statements from the date of acquisition.

Net Assets Acquired	
Property, plant and equipment	795
Goodwill	301
Net non-cash working capital	(6)
Future income tax	(264)
	826
Less acquisition costs	(4)
	822

Lundin Oil AB

In August 2001, Talisman acquired Lundin Oil AB ("Lundin"), an oil and gas exploration and development company, for \$431 million (net of cash on hand) and long-term debt assumed of \$70 million. The acquisition has been accounted for using the purchase method and the results have been included in these financial statements from the date of acquisition.

Net Assets Acquired	
Property, plant and equipment	515
Goodwill	176
Net non-cash working capital	(19)
Future income tax	(158)
	514
Less acquisition costs	(13)
	501

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 \$736 million, cash of \$57 million and long-term debt assumed of \$329 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	1,263
Net non-cash working capital	(30)
Future income taxes and other	(90)
	1,143
Cash	4
Less acquisition costs	(25)
	1,122

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 million and long-term debt assumed of \$28 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	92
Future income taxes and other	(3)
	89
Less acquisition costs	(1)
	88

Pro forma financial information, which includes the impact of the above acquisitions as if the companies had been acquired at the beginning of each of the respective years, has not been presented. The year end consolidated balance sheet in each of the years, as presented, includes the acquired assets and the income statement impact of each of the acquisitions is included for at least one quarter during each of the respective years.

3. Inventories

December 31	2001	2000
Materials and supplies	96	100
Product	3	3
	99	103

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:

	2001	2000	1999
Expected long-term rate of return on plan assets (%)	7.5	7.5	7.5
Discount rate (%)	6.5	6.6	7.0
Rate of compensation increase (%)	4.5	4.5	3.5

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

	2001	2000	1999
Current service cost — defined benefit	2	1	1
Current service cost — defined contribution	5	4	4
Interest cost	5	5	4
Expected return on plan assets	(10)	(10)	(9)
Amortization of net transitional asset	(1)	(1)	(1)
Net benefit plan expense (credit)	1	(1)	(1)

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

	2001	2000
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	81	74
Current service cost	2	1
Interest cost	5	5
Actuarial losses	13	6
Benefits paid	(6)	(5)
Accrued benefit obligation, end of year ¹	95	81
Plan assets		
Fair value of plan assets, beginning of year	159	147
Actual return on plan assets	(5)	20
Employer contributions	2	1
Plan participants' contributions	4	—
Surplus applied to defined contribution plan	(4)	(4)
Benefits paid	(6)	(5)
Fair value of plan assets, end of year ¹	150	159
Funded status — plan surplus	55	78
Unamortized net actuarial loss (gain)	7	(14)
Unamortized net transitional asset	(10)	(12)
Other	(1)	—
Net accrued benefit asset	51	52

¹ The accrued pension benefit obligation for a plan with an accrued benefit obligation in excess of plan assets was \$23 million as at December 31, 2001 (2000 — \$18 million). The fair value of the pension assets from this plan was \$2 million at December 31, 2001 (2000 — \$4 million).

At December 31, 2001, the actuarial net present value of the accrued benefit obligation for other post-retirement benefit plans was \$7 million (2000 — \$8 million).

5. Property, Plant and Equipment

	Cost	Accumulated depreciation, depletion and amortization	Net book value
December 31, 2001			
Oil and gas properties	9,033	2,984	6,049
Gas plants, pipelines and production equipment	4,836	1,507	3,329
Corporate assets	194	111	83
	14,063	4,602	9,461
December 31, 2000			
Oil and gas properties	7,024	2,557	4,467
Gas plants, pipelines and production equipment	3,833	852	2,981
Corporate assets	152	99	53
	11,009	3,508	7,501

In the year ended December 31, 2001, interest costs of \$19 million (2000 — \$16 million, 1999 — \$41 million) were capitalized relating to the Blake oil field development in the North Sea and Block PM3 in Southeast Asia.

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

	2001	2000
Non-depleted capital at December 31		
Acquired probable reserve costs		
Canada — associated with producing fields	229	256
North Sea — associated with producing fields	120	181
North Sea — not associated with producing fields	22	46
Southeast Asia — not associated with producing fields	306	—
Exploration costs ¹	399	265
	1,076	748

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

In addition, at December 31, 2001, \$163 million (2000 – \$312 million; 1999 – \$166 million) in development costs relating to the North Sea and Algeria 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	2001	2000
Bank Credit Facilities ¹		
Acquisition Credit Facility (2.94%) ²	625	—
Project Loan Facility (2000 – US\$96 million, 8.56%)	—	143
Bank Credit Facilities (2.80%) ²	639	—
Debentures and Notes (Unsecured) ³		
7.25% debentures (US\$300 million), due 2027	478	450
6.96% notes (US\$200 million), due 2005	318	300
7.125% debentures (US\$175 million), due 2007	279	263
5.70% medium term notes, due 2003	180	180
8.06% medium term notes, due 2002 ⁴	175	175
6.89% notes (US\$50 million), Series B, due 2006 ⁵	79	75
9.80% debentures, Series B, due 2004	75	75
5.80% medium term notes, due 2007	60	—
6.71% notes (US\$25 million), Series A, due 2004	40	37
9.66% medium term notes, due 2002	35	35
	2,983	1,733
Less current portion	(189)	(30)
	2,794	1,703

1 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.

2 The outstanding bank credit facilities balance at December 31, 2001 has been classified as long-term debt since the Company has 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 credit facilities in 2002.

3 Interest on all debentures and notes is payable semi-annually.

4 Extendible to 2009 at the option of the holders.

5 Repayable in five equal annual installments commencing 2006.

Acquisition Credit Facility

In connection with the funding of the acquisition of Lundin Oil AB the Company arranged a \$625 million unsecured non-revolving acquisition credit facility. The full amount of this facility was drawn down in August 2001 and must be fully repaid by August 2002. In addition, proceeds of equity financings or debt financings, excluding the first \$150 million raised through debt financings, must be used to repay the amounts outstanding under this facility. Borrowings are available in the form of prime loans, Canadian dollar bankers' acceptances, US dollar base rate loans or LIBOR-based loans.

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 project loan facility was repaid in 2001. A non-cash expense of \$17 million, representing related unamortized deferred financing costs and foreign exchange losses, was recognized at the time of repayment.

Bank Credit Facilities

Talisman has unsecured credit facilities totaling \$1,133 million, consisting of facilities of \$429 million ("Facility No. 1"), \$504 million ("Facility No. 2"), \$100 million ("Facility No. 3") and \$100 million ("Facility No. 4"). The maturity date of Facility No. 1 is March 23, 2004 although this date may be extended from time to time upon agreement between the Company and the respective lenders. Prior to this maturity date, the Company may borrow, repay and reborrow at its discretion. The maturity date of Facility No. 3, which is now non-revolving, is October 31, 2002, by which date all amounts outstanding must be repaid. The term dates of Facility Nos. 2 and 4 are March 21, 2002 and August 28, 2002, 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. Facility No. 2 expires four 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. 4 expires one year after the then current term date, and if the term is not extended, must be repaid on the maturity date.

Borrowings under Facility Nos. 1 and 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 Nos. 3 and 4 are available in the form of prime loans, Canadian bankers' acceptances, US dollar base rate loans or LIBOR-based loans.

Repayment Schedule

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

Year	
2002	189
2003	406
2004	670
2005	445
2006	79
Subsequent to 2006	1,194
Total	2,983

Subsequent to year end, the Company issued \$325 million in unsecured Medium Term Notes with a coupon rate of 5.80% maturing on January 30, 2007. This issue has been used to repay a portion of the Acquisition Credit Facility and a portion of the Bank Credit Facilities. The Company's long-term debt repayment schedule has been adjusted to reflect these events.

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	2001		2000		1999	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, beginning of year	135,344,045	2,849	138,346,297	2,901	118,907,320	2,086
Issued during year						
Acquisition of Highridge	—	—	—	—	1,587,589	60
Acquisition of Rigel	—	—	—	—	17,092,733	736
Exercise of stock options	1,512,898	49	1,276,048	38	758,655	19
Purchased during year	(3,036,400)	(65)	(4,278,300)	(90)	—	—
Cancelled pursuant to terms of Plans of Arrangement	(87,361)	(2)	—	—	—	—
Balance, end of year	133,733,182	2,831	135,344,045	2,849	138,346,297	2,901

During the year ended December 31, 2001, Talisman repurchased 3,036,400 common shares of the Company pursuant to a normal course issuer bid for a total of \$166 million.

Talisman has cancelled 87,361 common shares of the Company pursuant to the terms of the offering agreements of certain past corporate acquisitions. As a result of the cancellation of these shares, \$2 million has been credited to contributed surplus.

Stock Option Plans

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. Option exercise prices approximate the market price for the common shares on the date the options are issued.

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 and net income per common share had stock options been recognized as compensation expense based on the estimated fair value of the options on the grant date.

	2001		2000		1999	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	786	762	906	890	177	150
Net income per common share	5.65	5.47	6.41	6.29	1.31	1.10

The pro forma amounts above are not indicative of future results as options generally vest over three years and are reflected as compensation expense in the above table over this period. Additional awards in future years are anticipated.

Stock options granted in 2001 had an estimated weighted-average fair value of \$22.80 per option (2000 – \$16.83 per option; 1999 – \$10.50 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:

	2001	2000	1999
Risk-free interest rate (%)	4.9	6.2	5.3
Estimated hold period prior to exercise (years)	5.3	5.4	5.4
Volatility in the price of the Company's common shares (%)	39	35	32
Dividends (\$/share)	0.60	—	—

Continuity of stock options	2001		2000		1999	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding at January 1	6,854,806	33.84	7,211,864	32.30	5,946,979	33.49
Granted	2,301,828	58.39	1,097,427	39.31	2,167,149	26.69
Exercised	1,512,898	32.19	1,276,048	29.39	758,655	25.06
Forfeited	146,125	45.24	176,637	36.93	142,609	36.14
Expired	—	—	1,800	42.55	1,000	25.78
Outstanding at December 31	7,497,611	41.49	6,854,806	33.84	7,211,864	32.30
Exercisable at December 31	3,246,985	34.87	3,529,921	32.67	3,302,439	27.05
Options available for future grants pursuant to the Company's Stock Option Plans	4,196,399		2,852,102		3,771,092	

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

December 31, 2001	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	314,200	21.70	3	314,200	21.70
\$25.00 to \$29.99	1,451,435	26.07	7	559,689	26.55
\$30.00 to \$39.99	1,818,695	35.59	7	896,195	32.88
\$40.00 to \$49.99	1,654,878	42.25	6	1,471,251	41.96
\$50.00 to \$58.55	2,258,403	58.34	9	5,650	58.42
\$11.94 to \$58.55	7,497,611	41.49	7	3,246,985	34.87

At December 31, 2001, 11,694,010 common shares were reserved for issuance primarily related to the stock option plans.

9. Financial Instruments

Financial contracts

The following financial contracts were outstanding at December 31:

a) 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, 2001, these contracts result in an effective rate of interest on the debentures of 9.8%.

b) Commodity Prices

Talisman entered into the following commodity price derivative contracts to reduce the volatility of anticipated natural gas and crude oil revenues. The amounts shown below are the weighted average of the contracts outstanding at December 31, 2001.

Natural gas contracts

	2002	2003
Natural gas price swaps		
Volumes (mcf/d)	51,750	34,400
Price (\$/mcf)	6.36	6.55
Natural gas three-way collars		
Volumes (mcf/d)	32,900	11,500
Ceiling price (\$/mcf)	4.14	3.54
Floor price (\$/mcf)	3.63	3.26
Sold put price (\$/mcf)	2.63	2.68
Natural gas two-way collars		
Volumes (mcf/d)	3,000	10,000
Ceiling price (\$/mcf)	7.70	7.14
Floor price (\$/mcf)	7.01	6.46

Crude oil contracts

	2002	2003
Crude oil price swaps (Brent oil index)		
Volumes (bbls/d)	20,000	10,000
Price (US\$/bbl)	24.07	21.75
Crude oil three-way collars (WTI oil index)		
Volumes (bbls/d)	29,000	
Ceiling price (US\$/bbl)	29.47	
Floor price (US\$/bbl)	24.97	
Sold put price (US\$/bbl)	21.50	

The three-way collars are similar to two-way 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	2001			2000		
	Carrying Value	Fair Value	Unrecognized	Carrying Value	Fair Value	Unrecognized
Debentures and notes	(1,719)	(1,767)	(48)	(1,590)	(1,605)	(15)
Foreign exchange forward contracts	—	—	—	(29)	(31)	(2)
Interest rate swap contracts	—	(19)	(19)	—	(13)	(13)
Natural gas price contracts	—	69	69	—	(84)	(84)
Crude oil price contracts	—	91	91	—	4	4

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 is 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, 2001, 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 counter parties. Although the Company does not generally require collateral from its counter parties, it does limit the total exposure to individual counter parties.

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.

A suit which seeks class action status was filed against Talisman in the United States District Court (Southern District of New York), under the Alien Tort Claims Act relating to the civil conflict in Sudan. Damages sought under the suit are indeterminate.

Talisman's estimated total future dismantlement, site restoration and abandonment liability at December 31, 2001 was \$1.5 billion (2000 — \$1.4 billion), approximately 75% of which is denominated in UK pounds sterling. At December 31, 2001, Talisman had accrued \$619 million (2000 — \$498 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 2002 in the amount of £145 million (\$336 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 pay tariffs to third parties for shipment of certain minimum quantities of crude oil and liquids and natural gas. 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 three vessels from third parties. The term of the Ross Floating Production, Storage and Offloading vessel ("FPSO") lease depends on the expected life of the Ross and Blake fields. The PM3 Floating, Storage and Offloading vessel ("FSO") has a 20 year term. An FPSO currently leased in Malaysia expires in 2003. In addition, Talisman has ongoing operating commitments associated with the vessels.

Estimated future minimum commitments¹

Year	Transportation and Processing Commitment	Office Lease Payments	Vessel Lease Payments	Total
2002	113	15	50	178
2003	70	14	91	175
2004	54	14	5	73
2005	40	14	5	59
2006	36	14	5	55
Subsequent to 2006	190	125	76	391
	503	196	232	931

1 Future minimum payments denominated in foreign currencies have been translated into Canadian dollars based on the December 31, 2001 exchange rate.

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 and the weighted average contract price in each of the years shown.

	2002	2003	2004
Volumes (mcf/d)	90,500	57,000	34,000
Weighted average price (\$/mcf)	3.77	3.32	3.44

In addition to the fixed price contracts, the Company has entered into contracts with a pricing structure similar to the three-way commodity collars disclosed in note 9. The weighted average volumes and prices under these NIT based index contracts at December 31, 2001 are as follows:

	2002	2003	2004
Volumes (mcf/d)	30,000	14,500	15,250
Call strike (\$/mcf)	4.10	3.59	3.49
Put strike (\$/mcf)	3.62	3.39	3.32
Sold put strike (\$/mcf)	2.79	2.78	2.67

These contracts are similar to two-way commodity 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	2001	2000	1999
Pipeline and custom treating tariffs	63	82	34
Investment income	15	13	11
Marketing income	4	4	1
	82	99	46

12. Other Expenses (Income)

Year ended December 31	2001	2000	1999
Net gain on asset disposals	(11)	(12)	(84)
Foreign exchange (gain) loss	(2)	8	(1)
Project loan facility deferred costs write-off	17	—	—
Gain on product inventory	3	—	—
Miscellaneous interest expense	2	11	1
Other expense (income)	16	8	23
	25	15	(61)

13. Taxes

Income Taxes

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

	2001	2000	1999
Current income taxes (recovery)			
Canada ¹	45	10	6
United Kingdom	153	233	13
Netherlands	9	4	2
Southeast Asia ²	83	31	14
Sudan	50	54	11
Other	2	2	3
	342	334	49
Future income taxes (recovery)			
Canada	134	147	56
United Kingdom	(68)	(33)	17
Netherlands	(1)	2	(3)
Southeast Asia ²	15	89	47
Sudan	3	5	(2)
Other	(11)	(14)	(6)
	72	196	109
Income taxes	414	530	158

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

² Includes operations in Indonesia and Malaysia/Vietnam.

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

	2001	2000
Future tax liabilities		
Property, plant and equipment	2,137	1,693
Pension assets	22	23
Other	90	39
	2,249	1,755
Future tax assets		
Provision for future site restoration	195	160
Tax credits carried forward	—	118
Other	65	22
	260	300
Net future tax liability	1,989	1,455

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 42.45% for the year ended December 31, 2001 (2000 and 1999 – 44.04%):

Year ended December 31	2001	2000	1999
Income taxes calculated at the Canadian statutory rate	572	698	161
Increase (decrease) in income taxes resulting from:			
Non-deductible royalties, mineral taxes and expenses	207	203	83
Resource allowances	(168)	(162)	(70)
Non-deductible depreciation, depletion and amortization	4	—	56
Deductible PRT expense	(62)	(64)	(13)
Lower foreign tax rates (net)	(90)	(172)	(65)
Provincial rebates and credits	(40)	(1)	(4)
Federal tax on large corporations	9	7	5
Other	(18)	21	5
Income taxes	414	530	158

Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) expense primarily relates to the North Sea and is comprised of current tax expense of \$102 million (2000 – \$165 million; 1999 – \$20 million) and deferred tax expense of \$47 million (2000 – \$15 million, recovery; 1999 – \$11 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.

Change in Income Tax Accounting Policy in Prior Year

Effective January 1, 2000, the Company retroactively adopted without restatement the liability method to account for income taxes. The liability method is explained in note 1(l). 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 million
Retained earnings at January 1, 2000	(670 million)
Net Income	80 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.

14. Consolidated Statements of Cash Flows

Selected cash flow information:

Year ended December 31	2001	2000	1999
Net income	786	906	177
Items not involving current cash flow			
Depreciation, depletion and amortization	1,313	1,153	747
Impairment writedowns	—	—	21
Dry hole	113	77	51
Net gain on asset disposals	(11)	(12)	(84)
Future taxes and deferred PRT	119	181	120
Other	27	8	—
	1,561	1,407	855
Exploration	147	100	79
Cash flow	2,494	2,413	1,111
Per common share (Canadian dollars)			
Cash flow	18.48	17.51	8.91
Diluted cash flow	18.15	17.25	8.85
Cash interest paid (net of capitalized interest)	137	147	126
Cash income taxes paid	365	182	11

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	2001	2000	1998
Accounts receivable	266	(247)	(217)
Inventories	10	(19)	(19)
Prepaid expenses	(9)	2	(6)
Accounts payable and accrued liabilities	(323)	385	42
Income and other taxes payable	(121)	201	21
Net source (use) of cash	(177)	322	(179)

15. Segmented Information

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

	Canada			North Sea ²		
	2001	2000	1999	2001	2000	1999
Revenue						
Gross sales						
Oil and liquids	714	799	451	1,466	1,513	583
Natural gas	1,583	1,216	609	172	159	128
Synthetic oil	40	41	28	—	—	—
Sulphur	(5)	3	2	—	—	—
Total gross sales	2,332	2,059	1,090	1,638	1,672	711
Royalties	558	511	223	93	70	17
Net sales	1,774	1,548	867	1,545	1,602	694
Other	34	19	18	46	78	27
Total revenue	1,808	1,567	885	1,591	1,680	721
Segmented expenses						
Operating						
Oil and liquids	121	97	74	407	374	250
Natural gas	198	155	128	18	26	32
Synthetic oil	20	17	13	—	—	—
Pipeline	4	4	3	42	35	14
Total operating expenses	343	273	218	467	435	296
DD&A	585	478	369	558	512	283
Dry hole	54	29	12	21	15	27
Exploration	69	54	39	30	13	8
Other	18	10	(61)	(23)	(4)	(3)
Total segmented expenses	1,069	844	577	1,053	971	611
Segmented income (loss) before taxes	739	723	308	538	709	110
Corporate expenses						
General and administrative						
Interest on long-term debt						
Total corporate expenses						
Income before taxes						
Property, plant and equipment	4,773	3,658	3,370	2,790	2,484	2,218
Goodwill	291	—	—	41	—	—
Other	368	399	127	371	389	258
Segmented assets	5,432	4,057	3,497	3,202	2,873	2,476
Corporate						
Total assets						
Capital expenditures						
Exploration	314	252	106	106	46	39
Development	562	434	217	527	257	256
Exploration and development	876	686	323	633	303	295
Acquisitions ¹						
Proceeds on dispositions						
Corporate						
Net capital expenditures						

1 Excluding corporate acquisitions

2	North Sea		2001	2000	1999
	Revenues	United Kingdom	1,561	1,657	697
		Netherlands	30	23	24
			1,591	1,680	721
	Property, plant and equipment	United Kingdom	2,750	2,436	2,170
		Netherlands	40	48	48
			2,790	2,484	2,218

Southeast Asia ³			Sudan			Other			Total		
2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
276	289	261	638	589	134	—	—	—	3,094	3,190	1,429
163	227	122	—	—	—	—	—	—	1,918	1,602	859
—	—	—	—	—	—	—	—	—	40	41	28
—	—	—	—	—	—	—	—	—	(5)	3	2
439	516	383	638	589	134	—	—	—	5,047	4,836	2,318
90	113	119	248	252	30	—	—	—	989	946	389
349	403	264	390	337	104	—	—	—	4,058	3,890	1,929
1	3	—	1	1	1	—	(2)	—	82	99	46
350	406	264	391	338	105	—	(2)	—	4,140	3,989	1,975
54	40	52	66	64	22	—	—	—	648	575	398
16	15	15	—	—	—	—	—	—	232	196	175
—	—	—	—	—	—	—	—	—	20	17	13
—	—	—	—	—	—	—	—	—	46	39	17
70	55	67	66	64	22	—	—	—	946	827	603
93	83	72	77	80	23	—	—	—	1,313	1,153	747
8	17	2	16	3	2	14	13	8	113	77	51
8	7	8	11	8	12	29	18	12	147	100	79
11	6	—	11	(1)	3	8	4	—	25	15	(61)
190	168	149	181	154	62	51	35	20	2,544	2,172	1,419
160	238	115	210	184	43	(51)	(37)	(20)	1,596	1,817	556
									108	95	70
									139	136	120
									247	231	190
									1,349	1,586	366
965	517	553	767	748	768	166	94	74	9,461	7,501	6,983
135	—	—	—	—	—	—	—	—	467	—	—
137	198	256	44	77	85	7	7	5	927	1,070	731
1,237	715	809	811	825	853	173	101	79	10,855	8,571	7,714
									51	105	94
									10,906	8,676	7,808
31	30	18	42	33	36	74	46	39	567	407	238
110	39	36	75	37	245	41	5	4	1,315	772	758
141	69	54	117	70	281	115	51	43	1,882	1,179	996
									186	431	482
									(47)	(81)	(133)
									30	15	17
									2,051	1,544	1,362

3	Southeast Asia		2001	2000	1999
	Revenues	Indonesia	332	406	264
		Malaysia	18	—	—
			350	406	264
	Property, plant and equipment	Indonesia	508	517	553
		Malaysia	448	—	—
		Vietnam	9	—	—
			965	517	553

Indonesian oil revenues consist entirely of sales to Pertamina.

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	2001	2000	1999
Net income (loss) – Canadian GAAP		786	906	177
Foreign exchange gain (loss) on long-term debt	1,7	(97)	(52)	87
Depreciation, depletion and amortization	2,3,4,7	(66)	(66)	(35)
(Loss) gain on derivative instruments	5	237	(13)	9
Preferred security charges	7	(42)	(40)	(24)
Deferred income taxes	3	(73)	28	90
Loss on adoption of accounting standard	5	(48)	—	—
		(89)	(143)	127
Net income (loss) – US GAAP		697	763	304
Per common share (Canadian dollars)				
Net income (loss)		5.16	5.54	2.44
Diluted net income (loss)		5.07	5.45	2.42

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	2001		2000	
		Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Other assets	1,5,7	128	173	81	27
Property, plant and equipment	2,3,4	9,461	9,881	7,501	7,984
Long-term debt	1,7	2,794	3,272	1,703	2,136
Future taxes	3	1,989	1,927	1,455	1,338
Share capital and contributed surplus	6,7	3,339	2,925	3,357	2,942
Retained earnings (deficit)	1-7	890	1,353	308	836

- 1 Foreign exchange gain (loss) 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. Effective January 1, 2002, Canadian GAAP will no longer require such gains or losses to be deferred, accordingly this GAAP difference will be eliminated in 2002.
- 2 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 results in differences in depreciation, depletion and amortization expense in subsequent years.
- 3 Income taxes and depreciation, depletion and amortization expense** – In 2000, the Company adopted the liability method to account for income taxes. The change to the liability method has eliminated a 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 has 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.

4 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. As disclosed in note 1(c), 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.

Effective January 1, 2001, for US GAAP purposes, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities. Effective with the adoption of this standard, every derivative instrument, including certain derivative instruments embedded in other contracts, are recognized on the balance sheet at 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.

Management has not designated any of the currently held financial instruments as hedges for US GAAP purposes and accordingly these derivatives have been recognized on the balance sheet at fair value with the change in their fair value recognized in earnings. In accordance with the transition provisions of SFAS No. 133, on January 1, 2001, the Company recorded a \$48 million after tax non-cash loss in current earnings as a cumulative effect of accounting change.

6 Appropriation of contributed surplus — In 1992, concurrent with a change in control of the Company, \$17 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, the Company'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. Under Canadian GAAP, the preferred securities are translated at the historical rate of exchange. 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, 2001 was \$485 million (2000 — \$450 million).

Newly Issued US Accounting Standards

SFAS No. 141 — Business Combinations and

SFAS No. 142 — Goodwill and Other Intangible Assets:

The newly issued accounting standards on Business Combinations and Goodwill and Other Intangible Assets were a joint project of the FASB and Canadian Institute of Chartered Accountants. The Canadian and US standards prohibits the pooling of interest method of accounting and requires the purchase method of accounting to be used on all business combinations initiated after June 30, 2001. In addition, these standards require the separate recording of identifiable intangible assets other than goodwill. Goodwill and indefinite life intangible assets are not amortized and are periodically tested for impairments based on fair values of reporting units. Existing goodwill on business combinations completed before July 1, 2001 will no longer be amortized after December 31, 2001. This effectively eliminates a significant GAAP different between Canada and the US. The financial results of the company in 2001 includes the amortization of \$10 million related to the goodwill on the Petromet acquisition which will no longer be required after January 1, 2002.

SFAS No. 143 — Accounting for Asset Retirement Obligations:

This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets for which an entity is legally obligated to incur. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement costs should be allocated to expense using a systematic and rational method. Management is currently evaluating the impact of this standard. Implementation is required no later than January 1, 2003, with earlier adoption encouraged.

SFAS No. 144 — Accounting for the Impairment or Disposal of Long-Lived Assets:

In October 2001, the FASB issued SFAS No. 144, which clarified certain implementation issues arising from an earlier standard (SFAS No. 121). This standard is effective January 1, 2002. Management does not believe that SFAS No. 144 will have a material effect on the Company's Consolidated Financial Statements.

Summary US Dollar 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)	2001	2000	1999
Total revenue	2,673	2,685	1,329
Cash flow	1,583	1,597	738
Net income (loss)	450	514	205
Net income (loss) per common share (US\$/share)	3.33	3.73	1.64
Average exchange rate (US\$/C\$)	0.6457	0.6732	0.6731

SUPPLEMENTARY OIL AND GAS INFORMATION

(unaudited)

The following supplemental data on the Company's oil and gas activities on pages 53 to 56 was 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	Southeast Asia ¹	Sudan	Other	Total
2001						
Net oil and gas revenue derived from proved reserves ²	1,744	1,584	350	389	—	4,067
Less: Production costs	323	467	70	66	—	926
Exploration and dry hole expense	123	51	16	27	43	260
Depreciation, depletion and amortization	549	558	93	77	—	1,277
Tax expense (recovery)	273	247	95	52	(18)	649
Results of operations	476	261	76	167	(25)	955
2000						
Net oil and gas revenue derived from proved reserves ²	1,527	1,671	403	337	—	3,938
Less: Production costs	256	435	55	64	—	810
Exploration and dry hole expense	83	28	24	11	31	177
Depreciation, depletion and amortization	462	512	83	80	—	1,137
Tax expense (recovery)	336	302	126	56	(14)	806
Results of operations	390	394	115	126	(17)	1,008
1999						
Net oil and gas revenue derived from proved reserves ²	844	720	265	103	—	1,932
Less: Production costs	205	296	67	22	—	590
Exploration and dry hole expense	51	35	10	14	20	130
Depreciation, depletion and amortization	366	293	72	23	—	754
Tax expense (recovery)	103	66	63	13	(8)	237
Results of operations	119	30	53	31	(12)	221

¹ Includes operations in Indonesia and Malaysia/Vietnam.

² 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	Southeast Asia ¹	Sudan	Other	Total
2001						
Proved properties	6,183	4,454	1,092	889	26	12,644
Unproved properties	408	284	195	30	111	1,028
Incomplete wells and facilities	24	37	56	22	29	168
	6,615	4,775	1,343	941	166	13,840
Less: accumulated depreciation, depletion and amortization	1,926	1,965	419	178	—	4,488
Net capitalized costs	4,689	2,810	924	763	166	9,352
2000						
Proved properties	4,783	3,728	759	770	7	10,047
Unproved properties	363	227	42	12	87	731
Incomplete wells and facilities	12	5	2	27	—	46
	5,158	3,960	803	809	94	10,824
Less: accumulated depreciation, depletion and amortization	1,515	1,476	321	95	—	3,407
Net capitalized costs	3,643	2,484	482	714	94	7,417
1999						
Proved properties	4,203	3,250	721	732	5	8,911
Unproved properties	322	59	37	6	62	486
Incomplete wells and facilities	9	2	—	12	7	30
	4,534	3,311	758	750	74	9,427
Less: accumulated depreciation, depletion and amortization	1,154	1,094	242	21	—	2,511
Net capitalized costs	3,380	2,217	516	729	74	6,916

¹ Includes operations in Indonesia and Malaysia/Vietnam.

Costs Incurred in Oil and Gas Activities

Years ended December 31 (millions of Canadian dollars)		Canada	North Sea	Southeast Asia ¹	Sudan	Other	Total
2001	Property acquisition costs						
	Proved	828	213	129	—	—	1,170
	Unproved	240	19	245	—	—	504
	Exploration costs	251	106	31	42	74	504
	Development costs	553	527	110	75	41	1,306
	Total costs incurred	1,872	865	515	117	115	3,484
2000	Property acquisition costs						
	Proved	197	70	—	—	—	267
	Unproved	69	181	—	—	—	250
	Exploration costs	184	46	30	33	46	339
	Development costs	426	257	39	37	5	764
	Total costs incurred	876	554	69	70	51	1,620
1999	Property acquisition costs						
	Proved	1,163	638	—	—	—	1,801
	Unproved	86	33	—	—	—	119
	Exploration costs	82	39	18	36	38	213
	Development costs	208	256	36	245	4	749
	Total costs incurred	1,539	966	54	281	42	2,882

¹ Includes operations in Indonesia and Malaysia/Vietnam.

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 decreased the discounted future net cash flows by \$12 billion in 2001;
- 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 standardized measure of discounted future net cash flows was prepared using the following prices:

	2001	2000	1999
Crude oil and liquids (\$/bbl)			
Canada	22.48	30.33	30.62
North Sea	29.61	33.14	35.79
Southeast Asia ¹	30.10	33.61	34.17
Sudan	23.89	27.59	33.57
Other	29.20	33.29	36.00
	26.34	31.04	33.42
Natural Gas (\$/mcf)			
Canada	3.49	13.61	2.61
North Sea	4.97	5.19	2.97
Southeast Asia ¹	2.54	3.80	3.95
	3.25	10.57	2.94

¹ Includes operations in Indonesia and Malaysia/Vietnam.

Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of Canadian dollars)		Canada	North Sea	Southeast Asia ¹	Sudan	Other	Total
2001	Future cash inflows ²	11,376	9,347	4,026	2,924	493	28,166
	Future costs						
	Production	(3,449)	(4,253)	(875)	(991)	(155)	(9,723)
	Development and site restoration	(567)	(1,616)	(850)	(217)	(71)	(3,321)
	Future net inflows before income taxes	7,360	3,478	2,301	1,716	269	15,122
	Future income and production revenue taxes	(2,509)	(1,284)	(929)	(361)	(26)	(5,109)
	Future net cash flows	4,851	2,194	1,372	1,355	241	10,013
	10% discount factor	(1,797)	(292)	(804)	(478)	(121)	(3,492)
	Discounted future net cash flows	3,054	1,902	568	877	120	6,521
2000	Future cash inflows ²	28,716	9,448	2,640	2,726	408	43,938
	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	25,713	4,622	1,995	1,784	300	34,414
	Future income and production revenue taxes	(10,663)	(2,108)	(852)	(362)	(80)	(14,065)
	Future net cash flows	15,050	2,514	1,143	1,422	220	20,349
	10% discount factor	(6,136)	(481)	(507)	(515)	(118)	(7,757)
	Discounted future net cash flows	8,914	2,033	636	907	102	12,592
1999	Future cash inflows ²	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

¹ Includes operations in Indonesia and Malaysia/Vietnam.

² Future cash inflows are revenues net of royalties.

Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of Canadian dollars)	2001	2000	1999
Sales of oil and gas produced, net of production costs	(3,141)	(3,128)	(1,340)
Net change in prices	(11,795)	8,957	3,997
Net change in production costs	(692)	(505)	(221)
Net change in future development and site restoration costs	(128)	(206)	18
Development costs incurred during the year	375	400	489
Extensions, discoveries and improved recovery	1,542	2,809	1,206
Revisions of previous reserve estimates	216	596	359
Net purchases and sales of reserves in place	550	135	1,951
Accretion of discount	2,110	1,057	389
Net change in taxes	4,726	(4,330)	(2,367)
Other	166	(269)	(374)
Net change	(6,071)	5,516	4,107
Balance, beginning of year	12,592	7,076	2,969
Balance, end of year	6,521	12,592	7,076

Continuity of Proved Net Reserves¹

	Southeast Asia						
	Canada ²	North Sea	Indonesia	Malaysia Vietnam	Sudan	Algeria	Total
Crude Oil and Liquids (mmbbls)							
Total Proved							
Proved reserves at December 31, 1998	132.6	104.7	28.8	—	80.9	6.1	353.1
Discoveries, additions and extensions	9.4	30.3	2.5	—	24.5	—	66.7
Purchase of reserves	32.4	73.6	—	—	—	—	106.0
Sale of reserves	(4.4)	—	—	—	—	—	(4.4)
Net revisions	4.3	(0.8)	(3.7)	—	(10.0)	0.7	(9.5)
1999 Production	(16.9)	(20.6)	(7.6)	—	(3.0)	—	(48.1)
Proved reserves at December 31, 1999	157.4	187.2	20.0	—	92.4	6.8	463.8
Discoveries, additions and extensions	20.2	20.2	4.1	—	8.6	5.0	58.1
Purchase of reserves	1.4	54.8	—	—	—	—	56.2
Sale of reserves	(1.7)	(0.1)	—	—	—	—	(1.8)
Net revisions	8.0	10.6	(1.0)	—	2.4	0.4	20.4
2000 Production	(19.4)	(38.9)	(5.2)	—	(11.0)	—	(74.5)
Proved reserves at December 31, 2000	165.9	233.8	17.9	—	92.4	12.2	522.2
Discoveries, additions and extensions	8.4	27.1	0.1	—	11.5	—	47.1
Development revisions and transfers	9.5	26.8	4.7	10.5	11.0	7.1	69.6
Purchase of reserves	8.1	16.2	—	10.6	—	—	34.9
Sale of reserves	(2.9)	(4.8)	—	—	—	—	(7.7)
Non-development revisions and transfers	4.7	(0.5)	(2.1)	3.2	13.3	(2.4)	16.2
2001 Production	(17.9)	(38.4)	(4.7)	(0.6)	(11.9)	—	(73.5)
December 31, 2001	175.8	260.2	15.9	23.7	116.3	16.9	608.8
Proved Developed							
December 31, 1998	129.9	78.5	27.0	—	—	—	235.4
December 31, 1999	151.9	150.7	17.3	—	92.4	—	412.3
December 31, 2000	160.9	173.3	15.2	—	77.4	—	426.8
December 31, 2001	168.6	203.8	12.3	1.0	89.6	—	475.3
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 1998	1,518.3	381.3	542.5	—	—	—	2,442.1
Discoveries, additions and extensions	186.4	10.1	51.1	—	—	—	247.6
Purchase of reserves	396.1	11.1	—	—	—	—	407.2
Sale of reserves	(105.1)	(8.9)	—	—	—	—	(114.0)
Net revisions	(73.2)	(1.2)	(26.4)	—	—	—	(100.8)
1999 Production	(198.1)	(40.8)	(30.6)	—	—	—	(269.5)
Proved reserves at December 31, 1999	1,724.4	351.6	536.6	—	—	—	2,612.6
Discoveries, additions and extensions	264.4	10.6	89.0	—	—	—	364.0
Purchase of reserves	27.2	—	—	—	—	—	27.2
Sale of reserves	(53.1)	(19.7)	—	—	—	—	(72.8)
Net revisions	14.5	(27.5)	(56.9)	—	—	—	(69.9)
2000 Production	(220.3)	(42.4)	(28.5)	—	—	—	(291.2)
Proved reserves at December 31, 2000	1,757.1	272.6	540.2	—	—	—	2,569.9
Discoveries, additions and extensions	255.7	11.7	—	—	—	—	267.4
Development revisions and transfers	38.1	2.0	256.1	199.1	—	—	495.3
Purchase of reserves	293.6	22.8	—	125.7	—	—	442.1
Sale of reserves	(44.7)	(1.5)	—	—	—	—	(46.2)
Non-development revisions and transfers	(24.9)	(5.0)	15.3	8.1	—	—	(6.5)
2001 Production	(222.3)	(35.3)	(32.4)	—	—	—	(290.0)
December 31, 2001	2,052.6	267.3	779.2	332.9	—	—	3,432.0
Proved Developed							
December 31, 1998	1,364.7	313.6	298.4	—	—	—	1,976.7
December 31, 1999	1,508.4	330.7	163.3	—	—	—	2,002.4
December 31, 2000	1,568.4	215.9	120.0	—	—	—	1,904.3
December 31, 2001	1,804.7	213.8	252.0	—	—	—	2,270.5

¹ See note 1(g) of the Consolidated Financial Statements for disclosure of royalty treatment in Indonesia, Malaysia, Vietnam, Sudan and Algeria.

² Canadian net proved reserves exclude synthetic crude oil reserves: December 31, 1999 — 27.8 mmbbls; December 31, 2000 — 36.9 mmbbls; December 31, 2001 — 36.4 mmbbls. For 2001, the net revisions and transfers have been segregated into development and non-development categories to better reflect the nature of the revisions and transfers. The continuity of reserves in prior years have not been restated.

Continuity of Proved Gross Reserves

	Canada ¹	North Sea	Indonesia	Southeast Asia Malaysia Vietnam	Sudan	Algeria	Total
Crude Oil and Liquids (mmbbls)							
Total Proved							
Proved reserves at December 31, 1998	156.7	107.0	39.9	—	100.9	12.0	416.5
Discoveries, additions and extensions	11.4	30.9	3.5	—	35.0	—	80.8
Purchase of reserves	39.4	77.2	—	—	—	—	116.6
Sale of reserves	(5.3)	—	—	—	—	—	(5.3)
Net revisions	7.6	2.9	(5.6)	—	0.4	—	5.3
1999 Production	(20.3)	(21.7)	(10.5)	—	(4.3)	—	(56.8)
Proved reserves at December 31, 1999	189.5	196.3	27.3	—	132.0	12.0	557.1
Discoveries, additions and extensions	24.0	21.3	5.8	—	13.1	8.3	72.5
Purchase of reserves	1.8	57.7	—	—	—	—	59.5
Sale of reserves	(2.2)	(0.1)	—	—	—	—	(2.3)
Net revisions	9.5	11.8	(0.2)	—	12.4	—	33.5
2000 Production	(23.3)	(41.0)	(7.4)	—	(16.8)	—	(88.5)
Proved reserves at December 31, 2000	199.3	246.0	25.5	—	140.7	20.3	631.8
Discoveries, additions and extensions	10.5	27.5	0.1	—	15.5	—	53.6
Development revisions and transfers	10.8	27.4	7.1	15.4	14.7	14.9	90.3
Purchase of reserves	10.7	20.4	—	14.7	—	—	45.8
Sale of reserves	(3.9)	(5.2)	—	—	—	—	(9.1)
Non-development revisions and transfers	8.0	(1.1)	(1.3)	5.4	4.8	—	15.8
2001 Production	(23.1)	(40.5)	(6.8)	(0.8)	(19.4)	—	(90.6)
December 31, 2001	212.3	274.5	24.6	34.7	156.3	35.2	737.6
Proved Developed							
December 31, 1998	153.0	80.4	37.8	—	—	—	271.2
December 31, 1999	182.5	158.0	23.9	—	132.0	—	496.4
December 31, 2000	192.7	182.4	21.6	—	117.9	—	514.6
December 31, 2001	203.0	215.7	18.9	1.5	120.4	—	559.5
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 1998	1,835.4	383.9	615.1	—	—	—	2,834.4
Discoveries, additions and extensions	234.7	10.1	65.8	—	—	—	310.6
Purchase of reserves	498.6	11.6	—	—	—	—	510.2
Sale of reserves	(132.3)	(9.3)	—	—	—	—	(141.6)
Net revisions	(18.2)	6.0	50.0	—	—	—	37.8
1999 Production	(249.0)	(41.9)	(39.5)	—	—	—	(330.4)
Proved reserves at December 31, 1999	2,169.2	360.4	691.4	—	—	—	3,221.0
Discoveries, additions and extensions	334.4	11.2	126.7	—	—	—	472.3
Purchase of reserves	34.9	—	—	—	—	—	34.9
Sale of reserves	(68.1)	(20.7)	—	—	—	—	(88.8)
Net revisions	23.4	(20.4)	(8.0)	—	—	—	(5.0)
2000 Production	(277.0)	(44.5)	(40.6)	—	—	—	(362.1)
Proved reserves at December 31, 2000	2,216.8	286.0	769.5	—	—	—	3,272.3
Discoveries, additions and extensions	326.5	12.1	—	—	—	—	338.6
Development revisions and transfers	47.6	2.1	362.9	294.6	—	—	707.2
Purchase of reserves	365.0	57.1	—	173.9	—	—	596.0
Sale of reserves	(57.0)	(1.6)	—	—	—	—	(58.6)
Non-development revisions and transfers	(6.6)	(14.0)	10.3	20.3	—	—	10.0
2001 Production	(295.5)	(39.5)	(34.0)	—	—	—	(369.0)
December 31, 2001	2,596.8	302.2	1,108.7	488.8	—	—	4,496.5
Proved Developed							
December 31, 1998	1,648.4	315.5	338.4	—	—	—	2,302.3
December 31, 1999	1,895.5	339.0	210.5	—	—	—	2,445.0
December 31, 2000	1,972.3	227.0	170.9	—	—	—	2,370.2
December 31, 2001	2,281.8	247.4	358.5	—	—	—	2,887.7

¹ Canadian gross proved reserves exclude synthetic crude oil reserves: December 31, 1999 — 32.6 mmbbls; December 31, 2000 — 43.0 mmbbls; December 31, 2001 — 43.4 mmbbls. For 2001, the net revisions and transfers have been segregated into development and non-development categories to better reflect the nature of the revisions and transfers. The continuity of reserves in prior years have not been restated.

Probable Reserves¹

	Southeast Asia							
	Canada	North Sea	Indonesia	Malaysia Vietnam	Sudan	Algeria	Trinidad	Total
Crude Oil and Liquids (mmbbls)								
Probable reserves at December 31, 2000	98.2	150.2	15.9	—	67.0	54.3	—	385.6
Discoveries, additions and extensions	3.4	10.3	4.9	—	5.9	—	61.0	85.5
Development revisions and transfers	(10.4)	(25.7)	(6.6)	(21.7)	(11.3)	(1.9)	—	(77.6)
Dispositions and acquisitions	7.5	6.4	—	71.4	—	—	—	85.3
Non-development revisions and transfers	(10.3)	1.4	(0.3)	(0.8)	(5.5)	7.2	—	(8.3)
Probable reserves at December 31, 2001	88.4	142.6	13.9	48.9	56.1	59.6	61.0	470.5
Natural Gas (bcf)								
Probable reserves at December 31, 2000	1,169.0	78.8	953.8	—	—	—	155.1	2,356.7
Discoveries, additions and extensions	149.4	23.2	416.9	—	—	—	133.4	722.9
Development revisions and transfers	(34.0)	(1.0)	(362.9)	(46.0)	—	—	—	(443.9)
Dispositions and acquisitions	265.6	8.0	—	392.0	—	—	—	665.6
Non-development revisions and transfers	(121.6)	(33.5)	9.2	(24.3)	—	—	—	(170.2)
Probable Reserves at December 31, 2001	1,428.4	75.5	1,017.0	321.7	—	—	288.5	3,131.1
BOE² (mmboe)								
Probable reserves at December 31, 2000	293.0	163.4	174.9	—	67.0	54.3	25.9	778.5
Discoveries, additions and extensions	28.3	14.2	74.4	—	5.9	—	83.2	206.0
Development revisions and transfers	(16.1)	(25.9)	(67.1)	(29.4)	(11.3)	(1.9)	—	(151.7)
Dispositions and acquisitions	51.8	7.7	—	136.7	—	—	—	196.2
Non-development revisions and transfers	(30.5)	(4.2)	1.2	(4.8)	(5.5)	7.2	—	(36.6)
Probable reserves at December 31, 2001	326.5	155.2	183.4	102.5	56.1	59.6	109.1	992.4

¹ Gross probable reserves, excluding sulphur and synthetic oil.

² Six mcf of natural gas equals one boe.

For 2001, the net revisions and transfers have been segregated into development and non-development categories to better reflect the nature of the revisions and transfers.

Historical Proved Reserves¹

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Crude Oil and Liquids (mmbbls)										
Opening balance	39.8	40.5	95.0	167.8	167.9	225.9	300.3	416.5	557.1	631.8
Discoveries, additions and extensions	2.8	11.0	8.8	15.4	33.8	68.7	42.4	46.4	38.8	53.6
Development revisions and transfers	—	—	—	—	—	—	40.9	15.6	33.7	90.3
Dispositions and acquisitions	0.3	53.8	69.9	0.9	35.6	29.0	67.3	111.3	57.2	36.7
Non-development revisions and transfers	3.6	(0.3)	12.2	11.2	24.3	23.2	18.2	24.1	33.5	15.8
Production	(6.0)	(10.0)	(18.1)	(27.4)	(35.7)	(46.5)	(52.6)	(56.8)	(88.5)	(90.6)
Closing balance	40.5	95.0	167.8	167.9	225.9	300.3	416.5	557.1	631.8	737.6
Natural Gas (bcf)										
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	3,272.3
Discoveries, additions and extensions	85.1	125.3	186.0	195.3	263.9	407.6	360.2	281.9	442.0	338.6
Development revisions and transfers	—	—	—	—	—	—	35.8	19.1	30.3	707.2
Dispositions and acquisitions	(24.0)	530.1	564.1	9.5	34.2	289.6	(51.7)	368.6	(53.9)	537.4
Non-development revisions and transfers	7.2	1.4	15.1	82.0	338.7	(95.2)	100.2	47.4	(5.0)	10.0
Production	(76.7)	(123.6)	(181.0)	(237.1)	(236.9)	(240.2)	(273.6)	(330.4)	(362.1)	(369.0)
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	4,496.5
BOE² (mmboe)										
Opening balance	163.7	163.0	306.3	476.5	485.0	609.5	744.2	888.8	1,094.0	1,177.2
Discoveries, additions and extensions	17.0	31.9	39.8	47.9	77.7	136.6	102.4	93.3	112.4	110.0
Development revisions and transfers	—	—	—	—	—	—	46.8	18.7	38.7	208.2
Dispositions and acquisitions	(3.7)	142.3	163.9	2.5	41.3	77.3	58.7	172.8	48.1	126.2
Non-development revisions and transfers	4.8	(0.1)	14.8	25.0	80.2	7.4	34.9	32.2	32.8	17.5
Production	(18.8)	(30.8)	(48.3)	(66.9)	(74.7)	(86.6)	(98.2)	(111.8)	(148.8)	(152.1)
Closing balance	163.0	306.3	476.5	485.0	609.5	744.2	888.8	1,094.0	1,177.2	1,487.0

¹ Gross reserves, excluding sulphur and synthetic oil.

² Six mcf of natural gas equals one boe.

For 2001, the net revisions and transfers have been segregated into development and non-development categories to better reflect the nature of the revisions and transfers. The continuity of reserves in prior years have not been restated.

Five Year Finding and Development Costs

	1997	1998	1999	2000	2001	3-year	5-year
Proved Reserves Additions ¹							
Canada (mmboe)	70.7	70.4	55.1	93.2	90.6	238.9	380.0
International (mmboe)	73.3	113.7	89.1	90.7	245.1	424.9	611.9
Total	144.0	184.1	144.2	183.9	335.7	663.8	991.9
Proved Net Acquisitions ²							
Canada (mmboe)	70.6	(12.4)	95.2	(6.0)	58.1	147.3	205.5
International (mmboe)	6.7	71.2	77.6	54.1	68.1	199.8	277.7
Total	77.3	58.8	172.8	48.1	126.2	347.1	483.2
Capital Spending (millions of dollars) ³							
Exploration and development							
Canada	397.1	381.3	300.5	658.7	821.2	1,780.4	2,558.8
International	498.7	670.7	621.1	459.6	971.1	2,051.8	3,221.2
Total Company	895.8	1,052.0	921.6	1,118.3	1,792.3	3,832.2	5,780.0
Net acquisitions and divestitures	679.0	214.1	1,581.5	209.5	1,478.1	3,269.1	4,162.2
Total Capital	1,574.8	1,266.1	2,503.1	1,327.8	3,270.4	7,101.3	9,942.2
Proved F&D Cost (\$/boe)							
Canada	5.62	5.41	5.45	7.07	9.06	7.45	6.73
International	6.80	5.90	6.97	5.06	3.96	4.83	5.26
Total	6.22	5.71	6.39	6.08	5.34	5.77	5.83
Proved + 1/2 Probable F&D Cost (\$/boe)							
Canada	5.30	5.82	4.65	7.34	10.09	7.55	6.80
International	8.66	6.10	6.14	2.59	3.69	3.79	4.54
Total	6.76	6.00	5.56	4.19	5.21	4.93	5.33
Proved FD&A Cost (\$/boe)							
Canada	7.27	5.78	8.35	7.39	11.75	9.44	8.55
International	6.86	5.03	7.49	4.72	4.86	5.53	5.55
Total	7.12	5.21	7.90	5.72	7.08	7.03	6.74
Proved + 1/2 Probable FD&A Cost (\$/boe)							
Canada	5.83	5.88	6.45	7.81	10.57	8.24	7.41
International	7.73	4.45	6.38	2.75	3.78	4.08	4.38
Total	6.37	4.76	6.42	4.01	5.75	5.51	5.51

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. Six mcf of natural gas equals one boe.

Historical Operations Summary

Years ended December 31	2001	2000	1999	1998	1997	1996	1995	1994	1993
Daily Average Production									
Crude oil (bbls/d)									
Canada	50,424	51,005	44,806	45,103	40,627	34,169	31,019	29,801	22,542
North Sea	108,163	109,096	57,267	54,988	48,065	30,675	16,987	7,114	—
Southeast Asia ¹	20,326	19,627	28,286	31,684	28,458	22,621	18,121	5,919	—
Sudan	53,257	45,869	11,726	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	473	116
Natural gas liquids (bbls/d)									
Canada	12,851	12,829	10,918	9,818	8,054	7,598	7,097	5,512	4,810
North Sea	2,665	2,806	1,989	2,492	2,437	2,363	1,791	538	—
Southeast Asia ¹	547	579	566	—	—	—	—	—	—
Synthetic oil (Canada) (bbls/d)	2,781	2,540	2,765	2,664	2,536	2,534	2,527	2,425	1,517
Total oil and liquids	251,014	244,351	158,323	146,749	130,177	99,960	77,542	51,782	28,985
Natural gas (mmcf/d)									
Canada	809	755	681	631	558	557	581	481	338
North Sea	108	122	115	104	100	90	69	15	—
Southeast Asia ¹	93	111	108	13	—	—	—	—	—
Total natural gas	1,010	988	904	748	658	647	650	496	338
Total (mboe/d)	419	409	309	271	240	208	186	134	85
Average Unit Prices									
Crude oil (\$/bbl)									
Canada	30.57	38.29	24.82	15.87	22.68	25.31	21.00	19.04	17.61
North Sea	36.24	40.51	28.70	18.69	26.25	28.41	23.63	22.43	—
Southeast Asia ¹	35.92	42.50	26.20	18.01	26.27	27.83	23.76	22.40	—
Sudan	32.66	38.52	31.24	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	10.17	7.24
Natural gas liquids (\$/bbl)									
Canada	31.69	35.03	19.84	15.07	22.39	21.13	18.04	16.56	16.18
North Sea	29.46	35.15	18.42	15.22	24.19	21.41	18.90	17.61	—
Southeast Asia ¹	37.47	42.66	26.70	—	—	—	—	—	—
Synthetic oil (Canada) (\$/bbl)	39.54	44.41	28.01	20.53	27.78	29.09	23.81	21.71	20.59
Total oil and liquids	34.05	39.53	26.58	17.41	24.89	26.52	21.99	19.65	17.49
Natural gas (\$/mcf)									
Canada	5.39	4.66	2.54	2.02	1.98	1.67	1.34	1.88	1.68
North Sea	4.35	3.58	3.06	3.90	3.88	3.35	3.63	3.78	—
Southeast Asia ¹	4.80	5.64	3.18	1.65	—	—	—	—	—
Total natural gas	5.22	4.63	2.68	2.26	2.27	1.91	1.58	1.94	1.68
Total (\$/boe)	32.95	34.80	21.48	15.66	19.73	18.70	14.72	14.75	12.60

¹ Includes operations in Indonesia and Malaysia/Vietnam.

Historical Financial Summary

(millions of Canadian dollars unless otherwise stated)

Years ended December 31	2001	2000	1999	1998	1997	1996	1995	1994	1993
Balance Sheets									
Current assets	799	1,042	730	272	471	362	256	426	130
Other assets	179	133	95	188	119	63	51	61	42
Goodwill	467	—	—	—	—	—	—	—	—
Property, plant and equipment	9,461	7,501	6,983	4,997	4,441	3,333	2,733	2,772	909
Total assets	10,906	8,676	7,808	5,457	5,031	3,758	3,040	3,259	1,081
Current liabilities	1,204	1,311	1,060	576	497	338	225	241	130
Deferred credits and other liabilities	2,679	1,997	968	596	608	427	283	235	91
Long-term debt	2,794	1,703	2,157	2,071	1,739	899	906	1,203	246
Shareholders' equity	4,229	3,665	3,623	2,214	2,187	2,094	1,626	1,580	614
Total liabilities and shareholders' equity	10,906	8,676	7,808	5,457	5,031	3,758	3,040	3,259	1,081
Results of Operations									
Revenue	4,140	3,989	1,975	1,371	1,430	1,213	899	613	330
Expenses	2,791	2,403	1,609	1,683	1,223	948	803	519	296
Income (loss) before taxes	1,349	1,586	366	(312)	207	265	96	94	34
Taxes (recovery)	563	680	189	(53)	130	170	61	55	32
Net income (loss)	786	906	177	(259)	77	95	35	39	2
Preferred security charges, net of tax	24	22	13	—	—	—	—	—	—
Income from discontinued operations	—	—	—	—	—	—	6	25	24
Net income (loss) available to common shareholders	762	884	164	(259)	77	95	41	64	26
Cash flow	2,494	2,413	1,111	631	797	697	502	362	189
Capital expenditures	2,098	1,625	1,495	1,224	1,066	765	489	429	179
Proceeds on property dispositions	(47)	(81)	(133)	(157)	(49)	(40)	(100)	(230)	(18)
Net capital expenditures	2,051	1,544	1,362	1,067	1,017	725	389	199	161
Per common share (dollars)									
Cash flow	18.48	17.51	8.91	5.64	7.29	6.71	5.21	4.63	3.17
Net income (loss)	5.65	6.41	1.31	(2.31)	0.70	0.91	0.42	0.82	0.43

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 November 13, 2001.

The asset coverage ratios are calculated as at December 31, 2001. The interest coverage ratios are for the 12-month period then ended.

	2001
Interest coverage (times)	
Income	8.45 ¹
Cash flow	18.78 ²
Asset coverage (times) ⁵	
Before deduction of future income taxes and deferred credits	3.32 ³
After deduction of future income taxes and deferred credits	2.42 ⁴

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.

⁵ For purposes of the asset coverage ratios, the current portion of long-term debt is included with long-term debt.

Selected Quarterly Financial Data

(millions of Canadian dollars unless otherwise stated)		Total Year	Three months ended			
			Dec. 31	Sept. 30	June 30	March 31
2001	Total revenue	4,140	936	1,000	1,014	1,190
	Net income	786	48	156	237	345
	Net income available to common shareholders	762	41	150	231	340
	Cash flow	2,494	503	587	641	763
	Total assets	10,906	10,906	11,154	10,053	9,035
	Total long-term liabilities	5,473	5,473	5,432	4,745	3,851
	Capital expenditures					
	Exploration	567	171	146	130	120
	Development	1,315	374	343	344	254
	Acquisitions	186	39	17	3	127
	Per common share (dollars)					
	Net income	5.65	0.31	1.11	1.71	2.51
	Diluted net income	5.55	0.30	1.09	1.68	2.46
	Cash flow	18.48	3.75	4.35	4.73	5.64
	Daily average production					
	Oil and liquids (bbls/d)	251,014	280,711	258,190	224,085	240,550
	Natural gas (mmcf/d)	1,010	1,079	986	980	993
	Total (mboe/d)	419	460	422	387	406
2000	Total revenue	3,989	1,129	975	962	923
	Net income	906	268	218	214	206
	Net income available to common shareholders	884	263	212	208	201
	Cash flow	2,413	689	580	573	571
	Total assets	8,676	8,676	8,461	8,412	8,244
	Total long-term liabilities	3,700	3,700	3,806	3,992	3,626
	Capital expenditures					
	Exploration	407	142	95	81	89
	Development	772	255	170	197	150
	Acquisitions	431	(18)	144	4	301
	Per common share (dollars)					
	Net income	6.41	1.93	1.53	1.51	1.45
	Diluted net income	6.32	1.90	1.51	1.48	1.44
	Cash flow	17.51	5.06	4.18	4.14	4.13
	Daily average production					
	Oil and liquids (bbls/d)	244,351	248,886	237,634	252,372	238,572
	Natural gas (mmcf/d)	988	997	956	978	1,025
	Total (mboe/d)	409	415	397	415	409

Selected Quarterly Financial Data

Product Netbacks		2001					2000				
		Total Year	Three months ended				Total Year	Three months ended			
			Dec. 31	Sept. 30	June 30	March 31		Dec. 31	Sept. 30	June 30	March 31
Canada	Oil and liquids (\$/bbl)										
	Sales price	30.80	21.58	32.81	33.70	35.14	37.64	38.52	39.71	35.86	36.36
	Hedging	(0.12)	(0.72)	(0.03)	0.12	0.13	3.44	4.72	3.85	3.52	1.58
	Royalties	6.88	4.56	7.34	7.58	8.05	8.74	8.84	9.38	8.48	8.22
	Operating costs	5.22	5.84	5.12	5.02	4.91	4.17	4.85	4.12	3.85	3.84
		18.82	11.90	20.38	20.98	22.05	21.29	20.11	22.36	20.01	22.72
	Natural Gas (\$/mcf)										
	Sales price	5.39	3.20	3.56	5.99	9.06	4.66	7.36	4.40	3.96	2.81
	Hedging	0.02	(0.37)	(0.22)	0.17	0.54	0.26	0.51	0.29	0.20	0.02
	Royalties	1.34	0.58	0.74	1.64	2.47	1.07	1.79	1.08	0.88	0.52
	Operating costs	0.67	0.75	0.62	0.68	0.63	0.56	0.62	0.66	0.49	0.48
		3.36	2.24	2.42	3.50	5.42	2.77	4.44	2.37	2.39	1.79
North Sea	Oil and liquids (\$/bbl)										
	Sales price	36.07	30.15	37.16	40.48	38.98	40.38	41.53	42.28	39.56	38.23
	Hedging	(0.17)	(0.72)	(0.02)	0.13	0.14	3.44	4.73	3.94	3.46	1.58
	Royalties	1.85	1.60	2.06	1.80	1.99	1.57	1.62	1.73	1.73	1.18
	Operating costs	10.06	9.66	9.92	11.31	9.71	9.13	9.44	9.05	8.82	9.24
		24.33	19.61	25.20	27.24	27.14	26.24	25.74	27.56	25.55	26.23
	Natural Gas (\$/mcf)										
	Sales price	4.35	4.48	3.40	3.92	5.35	3.58	4.59	3.67	3.07	3.13
	Hedging	—	—	—	—	—	—	—	—	—	—
	Royalties	0.46	0.84	0.43	0.23	0.20	0.14	0.25	0.12	0.12	0.08
	Operating costs	0.46	0.66	0.27	0.29	0.50	0.57	0.67	0.80	0.30	0.57
		3.43	2.98	2.70	3.40	4.65	2.87	3.67	2.75	2.65	2.48
Southeast Asia ¹	Oil and liquids (\$/bbl)										
	Sales price	35.97	27.63	37.86	42.81	38.22	42.50	44.17	46.24	42.14	37.71
	Hedging	(0.30)	(1.04)	(0.19)	0.12	0.14	3.44	4.82	3.91	3.53	1.58
	Royalties	10.69	7.74	11.41	12.73	11.83	13.36	13.92	14.60	13.38	11.63
	Operating costs	7.13	6.89	6.82	8.04	6.89	5.40	5.90	5.53	4.71	5.49
		18.45	14.04	19.82	21.92	19.36	20.30	19.53	22.20	20.52	19.01
	Natural Gas (\$/mcf)										
	Sales price	4.80	4.06	4.88	5.60	4.74	5.64	6.01	5.74	5.77	5.04
	Hedging	0.02	0.01	0.01	0.01	0.02	0.04	0.03	0.05	0.05	0.03
	Royalties	0.24	0.21	0.24	0.27	0.23	0.34	0.28	0.57	0.27	0.24
	Operating costs	0.47	0.61	0.50	0.41	0.35	0.39	0.42	0.40	0.35	0.38
		4.07	3.23	4.13	4.91	4.14	4.87	5.28	4.72	5.10	4.39
Sudan	Oil (\$/bbl)										
	Sales price	32.66	24.87	33.36	40.22	32.54	38.52	32.71	44.62	40.61	36.25
	Hedging	(0.13)	(0.73)	(0.03)	0.12	0.14	3.44	4.63	3.82	3.45	1.58
	Royalties	12.78	9.01	11.62	18.28	12.41	15.00	12.66	20.17	15.86	11.07
	Operating costs	3.40	3.25	2.78	3.93	3.71	3.80	4.15	3.75	3.71	3.55
		16.61	13.34	18.99	17.89	16.28	16.28	11.27	16.88	17.59	20.05
Total Company	Oil and liquids (\$/bbl)										
	Sales price	33.99	26.94	35.33	38.66	36.54	39.48	39.19	42.37	39.03	37.33
	Hedging	(0.16)	(0.75)	(0.04)	0.12	0.14	3.44	4.71	3.89	3.48	1.58
	Royalties	6.22	4.29	6.18	8.34	6.58	6.99	6.68	8.54	7.03	5.74
	Operating costs	7.15	7.27	6.96	7.45	6.94	6.50	6.90	6.36	6.27	6.46
		20.78	16.13	22.23	22.75	22.88	22.55	20.90	23.58	22.25	23.55
	Natural gas (\$/mcf)										
	Sales price	5.22	3.45	3.66	5.74	8.24	4.63	6.90	4.48	4.05	3.11
	Hedging	0.02	(0.28)	(0.18)	0.13	0.43	0.20	0.40	0.23	0.16	0.02
	Royalties	1.14	0.58	0.66	1.37	2.01	0.88	1.45	0.92	0.71	0.43
	Operating costs	0.63	0.73	0.58	0.62	0.59	0.54	0.60	0.64	0.45	0.48
		3.43	2.42	2.60	3.62	5.21	3.01	4.45	2.69	2.73	2.18

¹ Includes operations in Indonesia and Malaysia/Vietnam.
Netbacks do not include synthetic oil or pipeline operations.

ADDITIONAL INFORMATION FOR US READERS

The following information is for US readers. Production, finding and development costs, finding, development and acquisition costs as well as netbacks and the recycle ratio have been calculated net of royalties and have been translated to US\$ at the average exchange rate for each of the years shown (2001 US\$1 = C\$1.55; 2000 US\$1 = C\$1.49; 1999 US\$1 = C\$1.49; 1998 US\$1 = C\$1.48; 1997 US\$1 = C\$1.38).

Net Production (after royalties)

	2001	2000	1999	1998	1997
Crude Oil and Liquids (bbls/d)					
Canada	49,145	49,018	44,114	44,128	37,361
North Sea	105,138	107,554	58,039	56,722	47,890
Southeast Asia ¹	14,667	13,853	17,149	20,230	16,101
Sudan	32,422	28,001	9,079	—	—
Synthetic Oil (Canada)	2,387	1,927	2,556	2,502	2,095
Total oil and liquids	203,759	200,353	130,937	123,582	103,447
Natural Gas (mmcf/d)					
Canada	608	582	552	539	468
North Sea	97	117	111	103	96
Southeast Asia ¹	89	104	103	—	—
Total natural gas	794	803	766	642	564
Total mboe/d	337	335	259	232	197

¹ Includes operations in Indonesia and Malaysia/Vietnam.

Finding and Development Costs (net of royalties) ¹

US\$/boe	1997	1998	1999	2000	2001	3-Year	5-Year
Proved F&D Cost, Net							
Canada	5.06	4.59	6.01	5.49	7.69	6.44	5.82
International	5.56	5.02	9.17	6.27	3.39	4.88	5.01
Total	5.34	4.87	7.92	5.81	4.51	5.46	5.32
Proved FD&A Cost, Net							
Canada	6.41	5.16	7.91	7.31	9.71	8.43	7.55
International	5.76	4.90	7.25	4.65	4.28	5.14	5.15
Total	6.16	4.97	7.59	5.79	6.12	6.50	6.17

¹ Property acquisition, exploration and development costs are set out in the Supplementary Oil and Gas Information table "Costs Incurred in Oil and Gas Activities".

Recycle Ratio

	1997	1998	1999	2000	2001	3-Year	5-Year
Netback (US\$/boe)	9.27	6.05	9.53	17.04	16.64	14.86	12.61
Finding and development	1.7	1.2	1.2	2.9	3.7	2.7	2.4
Finding, development and acquisition	1.5	1.2	1.3	2.9	2.7	2.3	2.0

The 2001 year end net reserves used in the above calculations have been determined by applying prices in effect on December 31, 2001. Year end oil and natural gas prices may be subject to significant volatility in the future, in which case large year-to-year price induced revisions to reported year end net reserves would occur. Consequently, future finding and development costs and recycle ratio calculations, which are impacted by net reserves additions and net production, may also be subject to significant volatility.

US READERS:
Product Netback

(Net of Royalties) – US\$

		2001	2000	1999
Canada	Oil and Liquids (US\$/bbl)			
	Sales Price	19.89	25.34	16.05
	Hedging	(0.10)	3.01	1.43
	Operating costs	4.33	3.66	3.07
		15.66	18.67	11.55
	Natural Gas (US\$/mcf)			
	Sales Price	3.48	3.14	1.71
	Hedging	0.02	0.22	0.08
	Operating costs	0.57	0.49	0.43
		2.89	2.43	1.20
North Sea	Oil and Liquids (US\$/bbl)			
	Sales Price	23.29	27.19	19.08
	Hedging	(0.12)	2.41	0.96
	Operating costs	6.83	6.40	7.96
		16.58	18.38	10.16
	Natural Gas (US\$/mcf)			
	Sales Price	2.81	2.41	2.06
	Hedging	—	—	—
	Operating costs	0.33	0.40	0.53
		2.48	2.01	1.53
Southeast Asia¹	Oil and Liquids (US\$/bbl)			
	Sales Price	23.22	28.61	17.63
	Hedging	(0.28)	3.37	1.58
	Operating costs	6.53	5.30	5.64
		16.97	19.94	10.41
	Natural Gas (US\$/mcf)			
	Sales Price	3.10	3.80	2.14
	Hedging	0.01	0.03	0.07
	Operating costs	0.32	0.28	0.28
		2.77	3.49	1.79
Sudan	Oil and Liquids (US\$/bbl)			
	Sales Price	21.09	25.93	21.03
	Hedging	(0.14)	3.79	—
	Operating costs	3.60	4.19	4.56
		17.63	17.95	16.47
Total Company	Oil and Liquids (US\$/bbl)			
	Sales Price	21.95	26.58	17.87
	Hedging	(0.13)	2.81	1.13
	Operating costs	5.64	5.32	5.69
		16.44	18.45	11.05
	Natural Gas (US\$/mcf)			
	Sales Price	3.37	3.12	1.80
	Hedging	0.01	0.17	0.06
	Operating costs	0.52	0.45	0.42
		2.84	2.50	1.32

¹ Includes operations in Indonesia and Malaysia/Vietnam.
Netbacks do not include synthetic oil or pipeline operations.

US READERS:

Continuity of Proved Net Reserves – Alternate Price Scenario

Net reserves, after deducting royalties, will fluctuate with changes in prices. Management does not view the net reserves calculated based on year end prices (as required by FAS 69) as the best estimate of future events and anticipated outcomes. The following net reserves have been calculated after deducting royalties based on oil and natural gas prices of US\$20.00/bbl (WTI) and US\$3.00/mcf (NYMEX). Net reserves reported in 2001 based on year end prices (1,180.8 mmboe) are not significantly different from those determined using the above pricing assumptions.

			Southeast Asia				
	Canada	North Sea	Indonesia	Malaysia Vietnam	Sudan	Algeria	Total
BOE¹ (mmboe)							
Opening balance	458.8	279.3	107.8	—	92.4	12.2	950.5
Discoveries, additions and extensions	50.5	29.0	—	—	11.2	—	90.7
Development revisions and transfers	15.8	27.1	46.2	43.1	10.7	7.2	150.1
Purchase of reserves	56.2	20.0	—	31.6	—	—	107.8
Sale of reserves	(10.3)	(5.1)	—	—	—	—	(15.4)
Non-development revisions and transfers	(1.5)	(0.7)	(1.9)	4.2	10.9	(2.4)	8.6
Production	(55.0)	(44.3)	(10.1)	(0.6)	(11.9)	—	(121.9)
Closing balance	514.5	305.3	142.0	78.3	113.3	17.0	1,170.4

1 Excludes synthetic oil.

Canadian oil and gas industry practice, when calculating Finding and Development (F&D) costs, is to exclude indirect and midstream costs, capitalized interest and costs associated with non-conventional oil and gas exploration and development activities. Reserve additions are net of disposals with the corresponding adjustment for the related proceeds in the determination of reserve replacement costs. The following F&D costs have been calculated using the Canadian industry conventions and the above reserves.

Reserve Replacement Costs – Reconciliation of Cost Used to FAS 69 Disclosures (US\$ millions)

Exploration and development costs (FAS 69)	1,169
Add: Land costs included in E&D	41
Less: Indirect cost and capitalized interest	(34)
Midstream costs	(18)
Exploration and development costs (Canadian F&D convention)	1,158
Acquisition costs (FAS 69)	1,081
Less: Sales proceeds on dispositions	(105)
Land costs included in E&D	(41)
Add: Additional costs on corporate acquisitions	20
Acquisition costs (Canadian F&D convention)	955
Total exploration, development and acquisition cost (Canadian F&D convention)	2,113

Proved Finding and Development Costs – Canadian Convention (US\$/boe)

	2001
Canada	8.18
International	3.40
Total	4.64

Proved Finding, Development and Acquisition Costs – Canadian Convention (US\$/boe)

	2001
Canada	10.19
International	4.25
Total	6.18

DETAILED PROPERTY REVIEW

2001 Landholdings

(thousands of acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Western Canada ¹	2,666.7	1,366.3	5,500.5	3,793.7	8,167.2	5,160.0
Oil Sands	8.4	1.2	410.2	31.1	418.6	32.3
Total Western Canada	2,675.1	1,367.5	5,910.7	3,824.8	8,585.8	5,192.3
Ontario	550.3	364.7	710.9	488.0	1,261.2	852.7
Other	2.0	—	3,209.9	241.0	3,211.9	241.0
Total Canada	3,227.4	1,732.2	9,831.5	4,553.8	13,058.9	6,286.0
North Sea	165.3	86.8	1,773.7	760.7	1,939.0	847.5
Indonesia	292.6	127.1	1,585.3	524.0	1,877.9	651.1
Malaysia	142.4	58.6	760.8	412.8	903.2	471.4
Papua New Guinea	—	—	1,686.0	614.8	1,686.0	614.8
Sudan	598.4	149.6	11,488.0	2,872.0	12,086.4	3,021.6
Algeria	76.8	5.2	750.5	262.7	827.3	267.9
Trinidad	—	—	205.3	86.9	205.3	86.9
Other	—	—	2,292.2	1,284.6	2,292.2	1,284.6
Total International	1,275.5	427.3	20,541.8	6,818.5	21,817.3	7,245.8
Total Worldwide	4,502.9	2,159.5	30,373.3	11,372.3	34,876.2	13,531.8

¹ Includes Yukon Territory, Northwest Territories and Arctic Islands, excluding Nunavut.

2001 Drilling

Year Ended December 31, 2001		Exploration				Development				Total			
		Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Canada	Gross	27.0	100.0	38.0	165.0	231.0	141.0	17.0	389.0	258.0	241.0	55.0	554.0
	Net	23.0	63.0	30.2	116.2	137.7	74.2	10.6	222.5	160.7	137.2	40.8	338.7
North Sea	Gross	3.0	3.0	4.0	10.0	20.0	—	3.0	23.0	23.0	3.0	7.0	33.0
	Net	2.1	0.3	1.6	4.0	8.8	—	0.4	9.2	10.9	0.3	2.0	13.2
Southeast Asia													
Indonesia	Gross	1.0	3.0	4.0	8.0	49.0	—	8.0	57.0	50.0	3.0	12.0	65.0
	Net	0.4	1.1	1.6	3.1	19.6	—	3.1	22.7	20.0	1.1	4.7	25.8
Malaysia and Vietnam	Gross	1.0	—	1.0	2.0	1.0	—	—	1.0	2.0	—	1.0	3.0
	Net	0.4	—	0.6	1.0	0.4	—	—	0.4	0.8	—	0.6	1.4
Sudan	Gross	20.0	—	6.0	26.0	23.0	—	—	23.0	43.0	—	6.0	49.0
	Net	5.0	—	1.5	6.5	5.8	—	—	5.8	10.8	—	1.5	12.3
Algeria	Gross	3.0	1.0	2.0	6.0	8.0	—	—	8.0	11.0	1.0	2.0	14.0
	Net	1.1	0.4	0.7	2.2	0.8	—	—	0.8	1.9	0.4	0.7	3.0
Trinidad	Gross	2.0	—	1.0	3.0	—	—	—	—	2.0	—	1.0	3.0
	Net	0.5	—	0.5	1.0	—	—	—	—	0.5	—	0.5	1.0
Total	Gross	57.0	107.0	56.0	220.0	332.0	141.0	28.0	501.0	389.0	248.0	84.0	721.0
	Net	32.5	64.8	36.7	134.0	173.1	74.2	14.1	261.4	205.6	139.0	50.8	395.4

Water injection, source and disposal wells are not included.

PROPERTY REVIEW:

Canada¹

Property		Average WI (%)	2001	2000	1999
Greater Arch					
Production:	Oil & Liquids (bbls/d)	82	10,347	11,047	6,028
	Natural Gas (mmcf/d)	76	204.2	202.9	133.3
	Total Production (boe/d)		44,379	44,867	28,245
Drilling:	Number of wells		96	136	54
	Success Rate (%)		76	78	74
Capital Expenditures:	(C\$ million)		136	155	63
Alberta Foothills					
Production:	Oil & Liquids (bbls/d)		139	439	121
	Natural Gas (mmcf/d)	81	102.4	79.6	67.1
	Total Production (boe/d)		17,210	13,709	11,298
Drilling:	Number of wells		21	22	13
	Success Rate (%)		100	95	100
Capital Expenditures:	(C\$ million)		142	119	67
Chauvin					
Production:	Oil & Liquids (bbls/d)	91	12,578	11,376	9,822
	Natural Gas (mmcf/d)	86	16.7	13.8	5.7
	Total Production (boe/d)		15,361	13,681	10,772
Drilling:	Number of wells		90	89	45
	Success Rate (%)		99	100	96
Capital Expenditures:	(C\$ million)		76	65	25
Northern Plains					
Production:	Oil & Liquids (bbls/d)	79	2,810	3,440	3,764
	Natural Gas (mmcf/d)	73	43.1	46.5	47.0
	Total Production (boe/d)		9,988	11,183	11,597
Drilling:	Number of wells		8	16	8
	Success Rate (%)		75	88	75
Capital Expenditures:	(C\$ million)		18	28	10
Ontario					
Production:	Oil & Liquids (bbls/d)	97	3,056	2,731	2,708
	Natural Gas (mmcf/d)	70	18.9	19.0	19.2
	Total Production (boe/d)		6,198	5,891	5,908
Drilling:	Number of wells		35	38	10
	Success Rate (%)		94	84	100
Capital Expenditures:	(C\$ million)		43	30	15
Monkman-BC Foothills					
Production:	Oil & Liquids (bbls/d)		11	—	—
	Natural Gas (mmcf/d)	71	90.0	102.9	106.5
	Total Production (boe/d)		15,016	17,142	17,757
Drilling:	Number of wells		5	2	1
	Success Rate (%)		80	100	100
Capital Expenditures:	(C\$ million)		17	31	20
Carlyle					
Production:	Oil & Liquids (bbls/d)	81	9,421	10,141	9,613
	Natural Gas (mmcf/d)		0.9	0.9	0.9
	Total Production (boe/d)		9,576	10,297	9,763
Drilling:	Number of wells		17	47	7
	Success Rate (%)		89	81	86
Capital Expenditures:	(C\$ million)		15	29	7
Edson Area (includes West Whitecourt, Bigstone/Wild River)					
Production:	Oil & Liquids (bbls/d)	66	3,449	2,391	2,098
	Natural Gas (mmcf/d)	75	162.7	106.8	110.0
	Total Production (boe/d)		30,565	20,188	20,431
Drilling:	Number of wells		95	59	39
	Success Rate (%)		85	85	90
Capital Expenditures:	(C\$ million)		169	82	30

Canada¹ (continued)

Property		Average WI (%)	2001	2000	1999
Lac La Biche					
Production:	Natural Gas (mmcf/d)	83	63.9	70.7	81.1
Drilling:	Number of wells		17	24	30
	Success Rate (%)		100	88	80
Capital Expenditures:	(C\$ million)		19	14	15
Central Alberta (includes Acme)					
Production:	Oil & Liquids (bbls/d)	75	2,981	3,094	2,014
	Natural Gas (mmcf/d)	60	22.2	22.1	8.7
	Total Production (boe/d)		6,676	6,776	3,464
Drilling:	Number of wells		11	19	6
	Success Rate (%)		100	90	83
Capital Expenditures:	(C\$ million)		35	25	12
Turner Valley					
Production:	Oil & Liquids (bbls/d)	93	2,105	2,002	2,072
	Natural Gas (mmcf/d)		6.8	6.2	6.2
	Total Production (boe/d)		3,231	3,037	3,105
Drilling:	Number of wells		5	2	—
	Success Rate (%)		100	100	—
Capital Expenditures:	(C\$ million)		23	3	—
Shaunavon					
Production:	Oil & Liquids (bbls/d)	90	3,813	3,428	3,403
Drilling:	Number of wells		4	6	—
	Success Rate (%)		100	100	—
Capital Expenditures:	(C\$ million)		6	4	—
Other					
Production:	Oil & Liquids (bbls/d)	83	15,346	16,286	16,846
	Natural Gas (mmcf/d)	79	77.2	84.2	95.4
	Total Production (boe/d)		28,093	30,334	32,744
Drilling:	Number of wells		150	149	84
	Success Rate (%)		60	94	99
Capital Expenditures:	(C\$ million)		177	101	59
Syncrude		1.25	2,781	2,540	2,765
Total Production:					
	Oil & Liquids (bbls/d)		66,056	66,374	58,489
	Natural Gas (mmcf/d)		809.0	755.6	681.1
	(boe/d)		200,753	192,313	171,998
Total Capital Expenditures:					
	(C\$ million)		876	686	323

¹ In Canada, Talisman operates approximately 86% of its oil and liquids production and approximately 80% of its natural gas production. Average working interest at December 31, 2001 in Talisman-operated properties only. Certain properties have been reallocated between core areas and, accordingly, volumes have been restated to conform to current year presentation. The average crude oil gravity of Talisman's Canadian production is 35° API.

North Sea¹

Property	Average WI (%)	2001	2000	1999
Ross/Blake				
Production:	Oil & Liquids (bbls/d)	16,029	13,288	7,765
	Natural Gas (mmcf/d)	3.0	3.5	1.2
	Total Production (boe/d)	16,524	13,868	7,973
Drilling:	Number of wells	4	2	4
Capital Expenditures:	(C\$ million)	163	122	113
Clyde/Orion/Halley				
Production:	Oil & Liquids (bbls/d)	15,112	16,015	13,445
	Natural Gas (mmcf/d)	7.1	8.2	2.3
	Total Production (boe/d)	16,297	17,389	13,824
Drilling:	Number of wells	2	2	2
Capital Expenditures:	(C\$ million)	77	40	66
Flotta Catchment Area				
Production:	Oil & Liquids (bbls/d)			
	Tartan/Highlander/Petronella	9,447	7,873	—
	Piper	19,070	22,236	—
	MacCulloch	4,761	5,891	1,726
	Claymore	17,496	18,863	—
	Natural Gas (mmcf/d)			
	MacCulloch and Piper	0.9	0.9	—
	Total Production (boe/d)	50,926	55,019	1,726
Drilling:	Number of wells	5	2	—
Capital Expenditures:	(C\$ million)	145	42	—
Buchan/Hannay				
Production:	Oil & Liquids (bbls/d)	5,990	5,498	5,422
	Natural Gas (mmcf/d)	1.0	0.9	0.8
	Total Production (boe/d)	6,165	5,649	5,560
Drilling:	Number of wells	3	—	—
Capital Expenditures:	(C\$ million)	89	32	40
Beatrice				
Production:	Oil & Liquids (bbls/d)	2,160	2,998	4,333
Drilling:	Number of wells	3	1	3
Capital Expenditures:	(C\$ million)	104	15	23
Brae				
Production:	Oil & Liquids (bbls/d)	9,221	10,762	12,286
	Natural Gas (mmcf/d)	79.3	74.5	63.4
	Total Production (boe/d)	22,440	23,183	22,845
Drilling:	Number of wells	4	6	2
Capital Expenditures:	(C\$ million)	11	11	5
Netherlands				
Production:	Oil & Liquids (bbls/d)	176	122	147
	Natural Gas (mmcf/d)	13.8	14.3	21.8
	Total Production (boe/d)	2,482	2,507	3,780
Drilling:	Number of wells	3	2	5
Capital Expenditures:	(C\$ million)	6	5	10
Other				
Production:	Oil & Liquids (bbls/d)	11,366	8,356	14,132
	Natural Gas (mmcf/d)	3.0	19.4	25.4
	Total Production	11,848	11,584	18,372
Drilling:	Number of wells	9	5	10
Capital Expenditures:	(C\$ million)	38	36	78
Total Production:				
	Oil & Liquids (bbls/d)	110,828	111,902	59,256
	Natural Gas (mmcf/d)	108.1	121.7	114.9
	(boe/d)	128,842	132,197	78,413
Total Capital Expenditures:				
	(C\$ million)	633	303	295

¹ In the North Sea, Talisman operates approximately 77% of its oil and liquids production and approximately 11% of its natural gas production. Average working interest at December 31, 2001 in Talisman-operated properties only. The average crude oil gravity of Talisman's North Sea production is 40° API.

Southeast Asia¹

Property		Average WI (%)	2001	2000	1999
Corridor					
Production:	Oil & Liquids (bbls/d)				
	Corridor Technical Assistance Contract	40	5,344	5,351	4,825
	Corridor Production Sharing Contract	36	2,081	2,320	2,669
	Total Oil & Liquids Production (bbls/d)		7,425	7,671	7,494
	Natural Gas (mmcf/d)				
	Corridor Production Sharing Contract	36	93.3	110.8	108.2
	Total Production (boe/d)		22,971	26,138	25,521
Drilling:	Number of wells		41	35	14
Capital Expenditures:	(C\$ million)		65	25	29
Tanjung Raya					
		100			
Production:	Oil & Liquids (bbls/d)		6,414	6,884	7,803
Drilling:	Number of wells		3	10	—
Capital Expenditures:	(C\$ million)		8	17	9
Ogan Komeri²					
		50			
Production:	Oil & Liquids (bbls/d)		3,340	3,938	12,025
Drilling:	Number of wells		12	9	11
Capital Expenditures:	(C\$ million)		7	4	9
Jambi					
		40			
Production:	Oil & Liquids (bbls/d)		1,420	1,713	1,530
Drilling:	Number of wells		9	12	4
Capital Expenditures:	(C\$ million)		3	3	2
Malaysia PM3 CAA					
		41			
Production:	Oil & Liquids (bbls/d)		2,273	—	—
Drilling:	Number of wells		3	—	—
Capital Expenditures: ³	(C\$ million)		56	—	—
Other					
		100			
Drilling:	Number of wells		—	1	—
Capital Expenditures:	(C\$ million)		2	20	5
Total Production:					
	Oil & Liquids (bbls/d)		20,872	20,206	28,852
	Natural Gas (mmcf/d)		93.3	110.8	108.2
	(boe/d)		36,419	36,673	46,878
Total Capital Expenditures:⁴					
	(C\$ million)		141	69	54

1 In Indonesia, Talisman operates approximately 33% of its oil and liquids production. The average crude oil gravity of Talisman's Indonesia production is 34° API.

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

3 Malaysia capital expenditures include PM305 and Vietnam expenditures.

4 Total Capital Expenditures includes capitalized interest and financing costs and excludes acquisition and disposition activity.

		Average WI (%)	2001	2000	1999
Sudan					
Production:	Oil & Liquids (bbls/d)	25	53,257	45,869	11,726
Drilling:	Number of wells		49	17	43
Capital Expenditures:	(C\$ million)		117	70	281

		Average WI (%)	2001	2000	1999
Exploration Areas					
Algeria					
		35			
Drilling:	Number of wells		14	12	9
Capital Expenditures:	(C\$ million)		63	34	29
Trinidad					
		25-50			
Drilling:	Number of wells		3	1	2
Capital Expenditures:	(C\$ million)		31	7	10
Colombia					
		30-100			
Drilling:	Number of wells		—	—	—
Capital Expenditures:	(C\$ million)		7	—	—

CORPORATE GOVERNANCE

Talisman's Approach to Corporate Governance

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

Independence 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 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, the Board is responsible for issuing securities, 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. 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 six times during the 2001 fiscal year. All Directors attended each meeting of the Board.

Committees of the Board

The Board of Directors has established five committees. 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 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.

Audit Committee

Members: The Audit Committee consists of **Douglas D. Baldwin**, **Al L. Flood**, **Dale G. Parker**¹ and **Roland Priddle**, all of whom are unrelated Directors.

Mandate: The primary roles and responsibilities of the Audit Committee include:

- reviewing the Company's year end and interim financial statements and Management's Discussion and Analysis with the auditors and management
- reviewing with the auditors and management and approving on behalf of the Board, all financial statements contained in a prospectus or similar document
- overseeing the Company's internal accounting and financial systems and controls and ensuring they are effective
- ensuring the Company maintains adequate processes for assessing the risk of material misstatement and for detecting control weaknesses
- ensuring the Company maintains adequate security of information and information systems and recovery plans
- recommending and ensuring the independence of the auditors
- maintaining direct access to the Company's internal and external auditors and meeting separately with each group

Activities: The Audit Committee met five times in 2001. One Director was unable to attend one meeting.

Executive Committee

Members: The Executive Committee consists of **James W. Buckee**, **Al L. Flood** and **David E. Powell**¹, of whom only James W. Buckee is a related Director.

Mandate: The Executive Committee is an extension of the full Board and convenes to take action when it is not practicable to call a meeting of the full Board. Consequently, the Executive Committee has no regularly scheduled meetings.

Activities: The Executive Committee met once in 2001. All members attended the meeting.

Governance and Nominating Committee

Members: The Governance and Nominating Committee consists of **Paul J. Hoenmans**, **Dale G. Parker**, **David E. Powell**¹ and **Stella M. Thompson**, all of whom are unrelated Directors.

Mandate: The primary roles and responsibilities of the Governance and Nominating Committee include:

- establishing a process for identifying, recruiting and appointing new Directors and recommending nominees for election to the Board
- establishing a long-term plan for composition of the Board
- reviewing and determining Director compensation
- considering and approving stock option grants to Directors of the Company who are not employed on a permanent basis by the Company
- assessing the effectiveness of the Board, its committees and its individual members
- developing the Company's approach to corporate governance and reviewing and approving the Company's annual disclosure of corporate governance compliance
- reviewing the general responsibilities and function of the Board and its committees
- considering requests from individual Directors or committees to engage outside advisors

Activities: The Governance and Nominating Committee met five times in 2001. All members attended each meeting.

¹ Denotes Committee Chairman

Management Succession and Compensation Committee

Members: The Management Succession and Compensation Committee consists of **Paul J. Hoenmans**¹, **David E. Powell**, **Lawrence G. Tapp** and **Stella M. Thompson**, all of whom are unrelated Directors.

Mandate: The primary roles and responsibilities of the Management Succession and Compensation Committee include:

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

Activities: The Management Succession and Compensation Committee met four times in 2001. All members attended each meeting of the Committee.

Pension Funds Committee

Members: The Pension Funds Committee consists of **James W. Buckee**, **Roland Priddle**, **Lawrence G. Tapp** and **Stella M. Thompson**¹, of whom only James W. Buckee is a related Director.

Mandate: The primary roles and responsibilities of the Pension Funds Committee include:

- approving the investment objectives and policy of the Company's pension plans
- reviewing the investment strategy and performance of the plans

Activities: The Pension Funds Committee met twice in 2001. One member was unable to attend one meeting of the Committee.

¹ Denotes Committee Chairman

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.

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 that are 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 at www.talisman-energy.com.

The Company is in the process of updating its disclosure policy to reflect draft National Policy 51-201 on Disclosure Standards and will finalize its disclosure policy following the issuance of National Policy 51-201 in final form.

Human Resources

During 2001, Talisman's permanent staff complement increased to 1,358 at year end.

Talisman provides its employees with a very competitive total rewards program based on corporate and individual performance. This program offers short and long-term incentives and benefits. The Company also encourages stock ownership through its Savings Plan and periodic employee stock option grants. The rate of employee turnover continues to be extremely low at less than 4%.

A new human resources system was implemented in 2001, substantially improving the administration of many aspects of Talisman's human resources functions. It also places Talisman on the leading edge of human resource technology and will enable the Company to add e-business improvements and innovations as they become available.

Talisman is committed to investing in its employees and provides technical, leadership and personal development programs, domestically and internationally.

Talisman actively participates in numerous campus recruiting initiatives throughout Canada. The Company provides practical and meaningful summer and cooperative work terms to students from many disciplines, providing those students with the opportunity to experience a variety of business challenges and work closely with experienced leaders in their field of study.

Information Technology

During 2001, a project to upgrade Talisman's Information Technology environment to Windows 2000 was completed, with over 1,500 desktop machines upgraded in Canada. In addition, the technology environment in the new Malaysian office was upgraded to corporate infrastructure standards, creating a secure environment, with high-speed links to Talisman's worldwide network. A number of other initiatives were implemented to improve the flow of data and integration between production data and accounting systems.

Talisman is an active participant in industry programs to identify opportunities in e-business.

DIRECTORS AND EXECUTIVE

Board of Directors

David E. Powell^{1,3,5}

Calgary, Alberta
Chairman, Talisman Energy Inc.

Douglas D. Baldwin^{1,2}

Calgary, Alberta
Corporate Director

James W. Buckee^{1,4}

Calgary, Alberta
President and Chief Executive Officer
Talisman Energy Inc.

Al L. Flood, C.M.^{1,2}

Thornhill, Ontario
Corporate Director

Paul J. Hoenmans^{3,5}

Aspen, Colorado
Corporate Director

Dale G. Parker^{2,5}

Vancouver, British Columbia
Public Administration and Financial
Institution Advisor

Roland Priddle^{2,4}

Saanich, British Columbia
Consultant

Lawrence G. Tapp^{3,4}

London, Ontario
Dean of Richard Ivey School of Business
of the University of Western Ontario

Stella M. Thompson^{3,4,5}

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

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 - 3rd Street S.W.
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902

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

Talisman Malaysia Limited
Level 31
Menara Citibank
165 Jalan Ampang
50450 Kuala Lumpur, Malaysia
Telephone: (603) 2162 6970
Facsimile: (603) 2162 6972

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

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 11:00 a.m. on Wednesday, May 1, 2002 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 participate by one of three available methods: (i) by telephone, (ii) by internet, or (iii) by signing and returning the form of proxy mailed with this report.

Website

www.talisman-energy.com
E-mail: tjm@talisman-energy.com

INVESTOR INFORMATION

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: 133,733,182 common shares at December 31, 2001

Preferred Securities

Trustee: JP Morgan Chase 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:
 Dominion Bond Rating Service – Pfd-3 (high);
 Moody's – Baa3; S&P – BBB-

Share Price Performance

Weekly Closing Price – January 1997 to December 2001



Market Information

Common Shares

		2001		2000		1999	
		TSE (C\$)	NYSE (US\$)	TSE (C\$)	NYSE (US\$)	TSE (C\$)	NYSE (US\$)
Share Price (dollars)	High	65.77	42.30	58.85	39.75	49.15	32.56
	Low	46.51	29.76	34.40	23.88	22.10	15.67
	Close	60.50	37.85	55.65	37.06	36.90	25.92
Shares Traded (millions)	First quarter	42.2	7.9	43.3	4.3	38.3	
	Second quarter	44.5	9.4	40.6	7.9	30.1	
	Third quarter	35.3	8.5	40.3	7.7	48.5	
	Fourth quarter	39.2	10.8	35.4	8.3	33.4	
	Year	161.2	36.7	159.6	28.2	150.3	
Year end shares outstanding (millions)		133.7		135.3		138.3	
Weighted average shares outstanding (millions)		134.9		137.8		124.6	
Stock options outstanding at year end (millions)		7.5		6.9		7.2	

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 of Canada
 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
 5.80% unsecured medium term notes
 Talisman's public long-term debt is currently rated as:
 Dominion Bond Rating Service – BBB (high);
 Moody's – Baa1; S&P – BBB+
 Talisman's commercial paper is currently rated as:
 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

Dividends

In May and December 2001, the Board of Directors of the Company declared a semi-annual dividend of \$0.30 per share on Talisman's common shares.

ABBREVIATIONS

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
CAA	Commercial Agreement Area
C\$	Canadian dollars
EBITDAX	Earnings before interest, preferred security charges, income taxes, depreciation, depletion and amortization, impairment write downs, exploration and dry hole expense
FPSO	Floating, Production, Storage and Offloading Vessel
FSO	Floating, Storage and Offloading Vessel
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmcf	million cubic feet
Moody's	Moody's Investor Service

NYMEX	New York Mercantile Exchange
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PSC	Production Sharing Contract
S&P	Standard & Poor's Ratings Group
tcf	trillion cubic feet
UK	United Kingdom
US	United States of America
US\$	United States dollars
WTI	West Texas Intermediate
£	Pound sterling

Conversion & 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 six mcf of natural gas equals one barrel of oil equivalent.

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 "A Discussion with Dr. Jim Buckee", 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 sales and production, business plans for drilling, exploration and production, the estimated amounts and timing of capital expenditures, anticipated operating costs, anticipated future debt levels, royalty rates and exchange rates, or other expectations, beliefs, plans, goals, 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", "forecasts", 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, 2001 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, Malaysia, Vietnam, Sudan, Algeria or Colombia); the effect of United States sanctions against Sudan; general economic conditions; the effect of acts of, or actions against international terrorism; 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. 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 filings with the SEC 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.

Unless otherwise indicated, the financial statements and other Canadian financial information included in this Annual Report are presented in accordance with Canadian generally

accepted accounting principles which differ from generally accepted accounting principles in the US. See note 16 to the Consolidated Financial Statements for information concerning significant differences between Canadian and US generally accepted accounting principles.



CANADA · NORTH SEA · SOUTHEAST ASIA · SUDAN · UNITED STATES · TRINIDAD · COLOMBIA · ALGERIA

TALISMAN

E N E R G Y

Talisman Energy Inc.

3400, 888 - 3 Street S.W. Calgary, Alberta, Canada T2P 5C5

Telephone: (403) 237-1234 Facsimile: (403) 237-1902

E-mail: t1m@talisman-energy.com

Website: www.talisman-energy.com