TALISMAN ENERGY

Guidance Call – January 10, 2012

John Manzoni, President and Chief Executive Officer

Ladies and gentlemen, good morning and thank you for joining our guidance call this morning. I am joined here in Calgary by the management team, who will be happy to answer your questions after Scott and I have run through the main points we want to get across today.

I'd like to begin by looking at what was achieved last year, and then look forward to our plans for the current year.

2011

Despite being a difficult year in some respects for Talisman, a great deal was achieved over the last 12 months.

Most importantly, our safety record continues to improve. In 2011 we improved our personal safety statistics again by more than 40%, so we are now moving the company very close to the second quartile – having been at the bottom of the fourth quartile just three years ago. In fact, some of our businesses are now firmly in top quartile – which is a tremendous achievement – and is our first and most important responsibility.

Over the course of last year or two, we have transitioned the portfolio to secure long-term growth potential. I am confident today that the company has established an asset base to secure growth in the medium and long term.

When we announce our results in a month's time, we will have produced around 425,000 barrels a day in 2011, which is 9% above the 2010 outcome on a continuing operations basis. Growth in the medium term is founded primarily in our shale portfolio here in North America.

We produced over 400 mmcf per day in the Marcellus last year, and about 485 mmcf per day in the fourth quarter – and secured some of the highest margins in that region. We consolidated our Montney joint venture with Sasol, and began the development of the Farrell Creek area, as well as making good progress understanding long-term monetization options for the gas from that area. In the fourth quarter last year we produced about 55 mmcf per day from the Montney as a whole, and about 35 mmcf per day from Farrell Creek.

In the Eagle Ford, after a slightly slower start than planned, we produced around 30 mmcf per day last year – but we have now established a fully functioning organization and will more than double that production this year.

And we took a substantial position in the liquids rich Duvernay shale here in Alberta – which we'll learn a lot more about in the next 12 months as we continue to pilot. And of course we also began drilling in Poland. It's very early days, and again, we'll learn more about that during this year.

So our shale portfolio is now underpinning long-term sustainability for the company.

The other source of confidence in our medium-term growth is Asia, where we saw successful commissioning of both the Jambi Merang and the Kitan fields during 2011. We produced about 120,000 barrels a day in the region during the fourth quarter, and it's good to remind you that our average sales price for gas in Asia for the year was above $9 an mcf. We will sanction new projects this year to secure growth in to the future.

We made further progress in evolving our exploration portfolio, and drilled several wells in the existing portfolio.

In Colombia, I think we have lots to be excited about. We started drilling an appraisal well on the Huron discovery in the foothills, and drilled a successful appraisal well on the Akacias discovery in Block 9. The discovery well on that structure continues to show promising results from the long-term test, and is flowing 1,600 barrels a day today. In Block 6 we began a program of six more stratigraphic wells to appraise the discovery in that block.

Activity will accelerate across our portfolio in Colombia this year, which I'll describe for you in a moment.

In Papua New Guinea we drilled several successful wells as we began aggregating gas in that country. We had success in both the Stanley and Ubuntu wells, and right at the end of the year drilled another encouraging well in the Elevala structure. These wells continue to give us confidence that we can secure sufficient gas to create monetization options over the medium term.

At the very end of last year, we had a disappointing result in our deepwater Lempuk well in the South Makassar straits in Indonesia, which did have gas shows, but has been plugged and abandoned.

And we were drilling a number of wells over the year-end which will reach their objectives in the next few months, including the Situche Norte well in Peru, the Kurdimir 2 well in Kurdistan, and of course our Poland and Duvernay shale pilot wells.

And finally in the North Sea, despite it not being an easy year in many respects, I think we can look forward with increased confidence. It starts with the people, and I believe we now have a high-quality team on the ground to run that business. We improved our operating efficiency in the UK – which is a measure of how well the basics are being performed, from 69% in 2010 to 72% in 2011. In Norway, our operational efficiency is already very high at 98%.

And in terms of its role as a provider of cash to the business, the North Sea delivered more than $600 million last year – so its fundamental role in the portfolio is certainly being fulfilled.

Perhaps our biggest disappointment of 2011 was the Yme project, which of course is not yet onstream, and continues to be problematic. I will talk more about this a bit later.

While we haven't completed our analysis yet, and won't do so until we announce our year-end results, just a word about F&D.

Our three-year F&D is likely to continue to show an improving trend as the underlying efficiency of our capital spending improves over time. On a one-year basis, I'm expecting F&D to increase a little versus last year when we release our final results for 2011, as a result of two main factors.

First, at the end of last year we agreed the re-determination of the Suban field, which is part of the Corridor asset in Indonesia. That means we'll make a retrospective downward adjustment to reserves in our year-end reporting.

Second, the one-year F&D numbers are very volatile, in particular in the international portfolio, and it looks like they're going to increase in 2011. North America, which is more stable given the unconventional business model, is likely to remain in the $8 to $10 per barrel range. The increase, even on a one-year basis, is not particularly significant.

2012

So, now turning to 2012.

I believe we can expect gas prices to remain depressed through this year – at least that is the basis on which we've set our capital plans. We are seeing signs of activity reduction in the dry gas plays – including ourselves – which I'll describe in a moment, and this will of course act to mitigate supply over time, but even the liquids-rich gas drilling will continue to provide gas supply, and hence we take a fairly conservative view of prices.

On the other hand, we believe oil prices are more or less underpinned at current levels – perhaps a little lower, provided the world maintains roughly its current state. That state feels slightly precarious, and certainly within the OECD doesn't hold exciting growth prospects. Over the last month or two, general forecasts of growth have been softening, but even accounting for that, supply and demand appear to be balanced to tighter going forward. There are of course downside risks, and events which could push prices upwards, but we believe, ultimately, the world needs the oil price to be somewhere in the $85 to $95 a barrel range to maintain equilibrium.

So in that context, I'll give you the main messages related to how we're thinking about this year and then give you a bit more detail on each region.

First.
Our exploration and development capital plans for 2012 are around $500 million lower than in 2011, at just a little over $4 billion.

In addition, within that lower capital budget, we have prioritized profitability over headline growth in the current gas price environment, and reduced dry gas expenditure and activity – primarily in the Marcellus and the Montney, by between $500 million and $600 million. At the same time, we've increased spending on identified liquids projects by about $350 million. The impact of this is to reduce the headline production growth, but increase the profitability going forward.

The capital program is setting in place long-term liquids growth in North America. In 2012 we will produce about 25,000 barrels a day liquids, which we expect will grow to over 60,000 barrels a day by 2015.

Second.
Our organic production growth in 2012 will be between 0 and 5%. Medium-term guidance, between 2011 and 2015 remains at 5 – 10%, but the switch to liquids-focused investment in 2012 will reduce growth this year. We calculate that reducing the gas directed capital by $500 million and increasing the allocation to liquids-rich opportunities reduces headline production by about 25,000 barrels oil a day equivalent, which represents about 5% from our current base.

The 0 – 5% range for the current year also accommodates some residual uncertainty around the Yme project.

Third.
We will actively focus our portfolio during 2012, and I have already signaled three areas where we will concentrate.

First is the North Sea. We'll continue to invest in this business to ensure the integrity of our installations, and secure the very important cash flow which it generates, but over time, we'll also seek to reduce our exposure somewhat to this mature, and relatively volatile business. I am not in a position today describe exactly how we will achieve that today, although we are investigating several options. A combination of some sales, some farm-outs, and some dilutions will, over time, result in the North Sea being a smaller part of the portfolio.

Second, we will continue to actively focus our North American conventional portfolio. Some assets are non-core to Talisman, and should be sold. In other areas, we will seek to use others' expertise, or resources to accelerate activity and optimize value in areas where we would not otherwise direct capital. I'm optimistic that this will drive increased value for shareholders in our conventional portfolio, and I expect to see evidence of that during 2012.

And finally, we will seek to exit some areas of our exploration portfolio as part of the natural evolution of that portfolio. Some areas we will appraise and develop, but others we will choose to exit for value at an earlier stage in the cycle.

Overall, we are targeting between $1 billion and $2 billion of disposal proceeds during 2012, as we continue to high grade and reposition the portfolio.

And the fourth headline message is that we have a lot of exploration wells currently drilling, so 2012 is a big year for exploration results for Talisman.

So those are the headlines. Let me give you a bit more flavour by area.

NAO

First, North America.

We have refocused our shale investment into liquids-rich opportunities, and will grow liquids from around 25,000 barrels a day this year to over 60,000 barrels a day by 2015.

Our shale portfolio will produce between 105,000 and 110,000 barrels of oil equivalent in 2012 (that's between about 630 and 660 mmcf per day), and our conventional portfolio will produce at around 80,000 barrels of oil equivalent per day during this year.

We will spend around $1.8 billion in total, about $400 million lower than in 2011, with a little over 40% directed to the liquids-rich areas.

In the Eagle Ford we ended last year with 10 rigs, and we'll exit this year with 14 rigs operating, spending around $500 million, up from about $350 million last year. Egress buildout in the Eagle Ford is a challenge, but we are confident that we are very close to securing sufficient egress for both gas and liquids to allow relatively unconstrained production through 2013.

We will also be directing just over $100 million into Wild River, a low-risk, resource-type play in Alberta, which is also liquids rich. There's lots of running room in this play, and we expect to build towards about 10,000 barrels a day of liquids over the next two to three years.

In the Marcellus, we'll reduce activity substantially in light of the current gas prices. We exited the year with 11 rigs, but will plan to reduce to an average of seven for this year –

and are actively considering reducing further to five rigs in the play. Even with five rigs operating we expect to be able to hold production around 500 mmcf per day. Capital will be between $600 million and $800 million in total, with up to $250 million spent on building out infrastructure as we move east towards Susquehana county.

In Farrell Creek in the Montney, we'll also reduce activity substantially, moving to a four-rig program for this year. Talisman capital spend is low, since we only pay 12.5% of the total – but we will reduce the pace of development both in light of the gas prices, and to ensure we optimize capital efficiency as we build understanding of the different zones which make up the very thick Montney shale. We have been encouraged by the early results in terms of liquids yields from a step-out pad in the East of the play which came on line in the last few weeks.

We will continue a paced program of pilot wells in the Duvernay, drilling a total of six wells, and we'll also drill around 20 wells with two rigs in the Cardium play.

Capital investment into our conventional portfolio will be between $300 million and $350 million – and production will be around 80,000 barrels a day, about 25% of which will be liquids.

Asia

Our Asian business is continuing to grow at an average of 8 % per annum over the next few years and uses its own funds to achieve that.

This year, we'll spend about $600 million to $700 million, including exploration expenditure, slightly lower than 2011 investment. The main feature will be the ramp-up of activity in the HSD/HST development project in Vietnam, which we sanctioned late last year. We will also spud two exploration wells in Block 5/2-10 in the Nam Con Son basin in Vietnam during this year.

Drilling will continue in Papua New Guinea, although at a reduced pace as we shoot more seismic to prepare the next prospects. We are also actively seeking a partner in PNG, in licenses where we have very high working interests and where we will benefit from a strategic relationship to help our medium-term monetization options of the aggregated gas resource.

The corridor field will see the normal flow of continued projects for capacity expansions and compression, and we will also continue drilling infill wells in the PM3 CAA commercial area in the Northern Field.

I am hoping we will be able to secure an extension to the PM3 PSC during 2012, which would unlock substantial new investment opportunities in the field for increased recovery.

We produced about 120,000 barrels a day in 2011, which will increase slightly in 2012 as we have a full year of the Kitan and Jambi Merang developments.

North Sea

In The North Sea, we will spend around $1.2 billion cash capital, which is about the same as last year. Around $800 million of the total will be in the UK, where a big focus will be on the Monarb and Auk South field redevelopments, although the pace at which we spend on these projects will depend to some degree on ongoing discussions with the UK government following the tax increase last year.

We will also be investing in Claymore as we continue the compressor replacement program on the platform, aimed at increasing operating efficiency for that field

In Norway the main focus will be on bringing on the Yme project. It's been clear for some time that the competence of the contractor is stretched, and we continue to manage a difficult balance to get the platform onstream as soon as possible. The current plans project mid-year – but last year's experience persuades me to take a cautious stance in setting Talisman's growth targets for this year. Productivity in the last few months has not been satisfactory, although it has been negatively impacted by very bad weather in the North Sea. We are very active with the contractor to find ways of improving the current unsatisfactory rate of progress.

The remaining expenditure across the North Sea is mainly on infill wells.

Overall we expect the North Sea to produce between 95,000 and 110,000 barrels a day in 2012, with the timing of Yme first production having a significant impact within this range.

The UK will produce between 65,000 and 70,000 barrels day, not 80,000 barrels a day which I have stated previously. This lower production is a result of two main factors

First, in light of experience in 2011, we have taken significantly more conservative assumptions with regard to projected improvements in operating efficiency, and also in terms of planned turnaround days. We believe this to be prudent until we get under the maintenance issues which were the cause of some of the unplanned downtime last year.

Second, we have seen increased water-cut on Auk North, and also on Tweedsmuir. We hope to rectify some of this production decline by drilling an updip producer in Tweedsmuir this year – but it isn't scheduled to be on production until early next year.

So overall – we should now consider 65,000 to 70,000 barrels a day a new normal for the UK. It will vary around this level a bit depending on the timing of projects and individual wells – but I consider this a rebased number for our UK business. I should note that we do not anticipate any reduction in proved reserves as a result of this new range.

Exploration

And finally exploration – where we have historically spent around $700 million per year. This year, we have reduced that slightly to closer to $600 million, as we trimmed our overall capital for the year.

A major focus will be in Colombia, where we have a very active program during the year. We will complete the Huron 2 appraisal well, and spud Huron 3. We have two rigs actively drilling development wells in the Piedemonte block, the most recent of which have been very successful. We expect to sanction the Piedemonte expansion by the middle of this year.

In Block 9, we'll continue to appraise the Akacias discovery to confirm its size and potential. Our objective is to seek a declaration of commerciality for the field, and target some early production by the end of this year.

We'll complete the six-well stratigraphic appraisal program in Block 6 with Pacific Rubiales, which will include flowing some of the wells on short-term test. We remain confident that we will be able to move this program quickly.

Overall, we expect production from Colombia to average around 16,000 barrels a day this year as we expand the Piedemonte field, and I expect we'll define the future steps more clearly from the heavy oil appraisal I have described.

In Peru, we are drilling Situche Norte, which we hope will increase the reserves we have already found nearby in Situche central. We'll sanction a development project for this discovery this year, which can handle a successful well in the North as well.

We will complete the current Kurdimir 2 well in Kurdistan, and spud another in the Baranan block. We've already found large accumulations of gas condensate, and these two wells are targeting liquids.

We'll complete the drilling of the three vertical wells in Poland, and determine next steps based on the results of those wells.

In Vietnam, as I mentioned earlier, we'll drill two wells in Block 5-2 /10 , and are planning our first exploration wells in the Sabah blocks in Malaysia. We also have continued exploration and appraisal activity in PNG and the North Sea.

So, that's an outline of our activity for the year. I'd like to turn now to Scott to run over the balance sheet, hedging plans, and cash balances.

Thanks, Scott.

Scott Thomson, Chief Financial Officer

Thanks, John.

Talisman continues to be in a strong financial position. We will end the year with net debt of approximately $4.5 billion. At 2011 analyst consensus cash flow forecasts our net debt to cash flow will be below 1.4x.

Liquidity remains strong. We have no material maturities until 2015 and approximately 85% of our debt matures post-2016. We have approximately $3 billion of room on our credit facility, which is committed until 2014 and priced at LIBOR plus 2%. In November 2011 we launched a US commercial paper program which we have started to utilize to lower our weighted average cost of capital. Currently we have $400 million placed in the commercial paper market at an attractive funding cost of less than 1%. Finally, just before the Christmas break we completed a $200 million preferred share offering at an attractive rate of 4.2%.

As we move throughout 2012 we continue to be focused on maintaining a healthy balance sheet. Significantly reduced capital expenditures combined with additional dispositions in both our North American conventional and exploration businesses should result in a free cash flow positive position for 2012. The exact timing of the dispositions will be determined as we move throughout the year, but we are currently in the process of marketing two North American assets which have generated significant interest from both North American and international counterparties. Successful conclusion of these two asset sales will give us some early momentum to achieving the $1 billion to $2 billion disposition estimate John referenced earlier.

It is worth spending a few moments on tax projections for 2012. Current taxes in 2012 will be dependent on production mix, oil prices and capital expenditures in the North Sea. At planned production and assuming 2011 prices, we expect current taxes to be similar to 2011. Lower UK tax will be offset by higher Norway tax although the Norway tax will ultimately be determined by the exact start-up date of YME.

In order to protect cash flow going forward we continued to layer in hedges in 2011 for the 2012 calendar year. We feel that $4 billion is the ideal capital expenditure budget for the firm, and in order to ensure execution of this program, it was prudent to lock in some price protection. Hedging our oil production was more effective than entering into gas hedges primarily because of the futures curve of each commodity. We have been successful in locking in a significant portion of our oil production in wide collars. We have 50,000 barrels a day of Brent hedged in the first half of 2012, 30,000 of which are in 90 by 150 collars and 20,000 of which are in 90 by 125 collars. In the second half of 2012 we have 30,000 barrels a day hedged, of which 20,000 barrels per day are hedged in 90 by 150 collars and 10,000 are hedged in 90 by 120 collars.

John, I’ll now turn it back to you.

John Manzoni, President and Chief Executive Officer

Thanks, Scott.

So ladies and gentlemen, just before your questions, a quick recap of the key points for his year.

- We'll spend about $4 billion cash capex this year. Within that, we'll reduce spending by a little over $500 million on dry gas versus last year, and spend about $350 million more on identified liquids opportunities.

- The balance sheet will remain strong. The exact cash balances will obviously depend on commodity prices, but we anticipate being slightly cash flow positive during the year including the proceeds from planned asset sales.

- We'll seek to streamline the portfolio in 2012, disposing between $1 billion and $2 billion of non-core assets in the North Sea, our exploration portfolio, and our conventional North American portfolio.

- Production, excluding the sales I have just mentioned, will be between 0 – 5% above the 2011 out-turn – which will be about 425,000 barrels a day. We have prioritized profitability over growth in the current gas price environment, and have consciously allocated capital to liquids opportunities rather than seek headline production growth. Medium-term production guidance to 2015 remains at 5 – 10%.

Thank you for listening. Now we'd be very happy to answer your questions.