

TERMS OF REFERENCE

AUDIT COMMITTEE

MISSION STATEMENT

The Audit Committee's mission is to assist the Board in fulfilling its obligations by overseeing and monitoring the Corporation's financial accounting and reporting process and the integrity of the Corporation's financial statements and its internal control over financial reporting and the external financial audit process. To fulfill this mission, the Audit Committee has received this mandate and has been delegated certain authorities that it may exercise on behalf of the Board.

COMPOSITION

At the first meeting of the Board of Directors of the Corporation after the election of Directors at the annual meeting of shareholders, the Board shall appoint an Audit Committee comprised of not less than three and not more than six Directors of the Corporation. Each member of the Audit Committee shall be independent (as required by applicable securities laws and stock exchange rules). At least one member of the Audit Committee shall be an audit committee financial expert and all members of the Audit Committee shall have an appropriate level of financial literacy as required under applicable stock exchange rules and securities laws and determined by the Board from time to time. The Board may replace or remove from the Audit Committee any member at any time.

The Chair of the Audit Committee shall be appointed by the Board at the meeting of the Board referred to above. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. The Audit Committee shall designate a Secretary to the Audit Committee who may be a member of the Audit Committee or an officer or employee of the Corporation. The Secretary shall keep minutes and records of all meetings of the Audit Committee. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Corporation to act as Secretary.

MEETINGS

Meetings of the Audit Committee, including telephone conference meetings, shall be held at such time and place as the Chair of the Audit Committee may determine. Notice of meetings shall be given to each member not less than 24 hours before the time of the meeting, provided that meetings of the Audit Committee may be held without formal notice if all of the members are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be given verbally or delivered personally, given by mail, facsimile or other electronic communication and need not be accompanied by an agenda or any other material. The notice shall however specify the purpose or purposes for which the meeting is being held.

At the request of the auditor of the Corporation (the "Auditor"), the Chief Executive Officer, the Chief Financial Officer or a member of the Audit Committee, the Chair shall call and convene a meeting of the Audit Committee.

A majority of the members of the Audit Committee present shall constitute a quorum. No business may be transacted by the Audit Committee except at a meeting of its members at which a quorum of the Audit Committee is present.

The Audit Committee shall meet at least quarterly.

TALISMAN

E N E R G Y

Representatives of the Auditor and management of the Corporation shall have access to the Audit Committee each in the absence of the other.

The Auditor shall be notified of all meetings of the Audit Committee and, when appropriate, it may attend and be heard at any such meeting and shall attend if requested to do so by a member of the Audit Committee.

Any matter the Audit Committee does not unanimously approve will be referred to the Board for consideration.

No alteration to the roles and responsibilities of the Audit Committee shall be effective without the approval of the Board of Directors.

The Audit Committee shall review the adequacy of these Terms of Reference on an annual basis and recommend any changes it considers appropriate to the Governance and Nominating Committee, which shall in light of the Corporation's governance structure and framework recommend any changes it considers appropriate to the Board of Directors.

ROLE AND RESPONSIBILITIES

A. FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The Audit Committee shall oversee the Corporation's financial reporting process on behalf of the Board and report on the results of these activities to the Board including:

1. review the Corporation's interim and annual financial statements and management's discussion and analysis of operations which accompanies such financial statements and, if determined to be satisfactory, in the case of the interim documents, approve them, and in the case of the annual documents, recommend them to the Board for approval;
2. review the interim and annual earnings press release prior to their filing or publication;
3. ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in items 1 and 2 above, and periodically assess the adequacy of those procedures;
4. review the appropriateness of any report or opinion proposed to be rendered in connection with the year end consolidated financial statements;
5. review the nature, substance and appropriateness of significant accruals, reserves and other estimates;
6. review the appropriateness of impairment provisions;
7. review with the Auditor and with the management of the Corporation and, if determined to be satisfactory, approve on behalf of the Board all financial statements included in a prospectus or other similar document; and
8. review and assess regularly:
 - (a) the quality and acceptability of accounting policies and financial reporting practices used by the Corporation;
 - (b) any significant new or proposed changes in financial reporting and accounting policies, practices or standards that may affect or be adopted by the Corporation;

TALISMAN

E N E R G Y

- (c) the key financial estimates and judgments of management that may be material to the financial reporting of the Corporation;
 - (d) policies related to financial disclosure risk assessment and management;
 - (e) responses by management to material information requests from government or regulatory authorities which may have an impact on the financial reporting of the Corporation; and
 - (f) presentations given by management and the Auditor regarding the accounting treatment of large transactions;
9. review and, if determined to be satisfactory, approve the annual financial statements and, where required by law, audited financial statements of the Corporation's pension plans, based on advice from the Pension Management Committee; and
10. appoint and, where necessary, terminate auditors of the Corporation's pension plans, based on advice from the Pension Management Committee.

B. EXTERNAL AUDIT

The Auditor shall be ultimately accountable to the shareholders of the Corporation, who shall be represented by the Board of Directors and the Audit Committee in their dealings with the Auditor. The Audit Committee shall recommend to the Board the auditor that will be proposed at the annual shareholders' meeting for appointment as the Auditor for the ensuing year. The Auditor shall report directly to the Audit Committee, which shall be responsible for compensation and retention of the Auditor and oversight of the Auditor's work (including resolution of disagreements between management and the Auditor regarding financial reporting).

At least annually, the Audit Committee shall require that the Auditor provide a formal written statement describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the Auditor and the Corporation (see also section D.1).

With respect to (iii) above and for more clarity, annually the Audit Committee shall obtain a written letter from the Auditor pursuant to the Independence Standards Board standard #1 disclosing all relationships between the Auditor and its related entities and the Corporation and its related entities, and confirming the Auditor's independence from the Corporation.

The Audit Committee shall not recommend to the Board that an auditor be appointed as the Auditor if the Corporation's Chief Executive Officer, Chief Financial Officer or Controller was employed by the auditor and participated in any capacity in the Corporation's audit during the one-year period preceding the date of the initiation of the Corporation's audit for which the Audit Committee is recommending the appointment. The Audit Committee shall review management's policies for hiring partners, employees and former partners and employees of the Auditor and former external auditor of the Corporation. The Audit Committee further shall ensure the independence of the Auditor by reviewing, and discussing with the Board if necessary, any relationships that may adversely affect the independence of the Auditor.

The Audit Committee shall review the planning and results of external audit activities and the ongoing relationship with the Auditor. In this regard the Audit Committee shall:

TALISMAN

E N E R G Y

1. review and, if determined to be satisfactory, pre-approve the terms of the annual external audit engagement plan, including but not limited to the following:
 - (a) engagement letter;
 - (b) objectives and scope of the external audit work;
 - (c) materiality limit;
 - (d) areas of audit risk;
 - (e) staffing;
 - (f) timetable; and
 - (g) proposed fees;
2. annually, or as otherwise required by the Audit Committee, review a written report from the Auditor on the critical accounting policies of the Corporation;
3. review and, if determined to be satisfactory, pre-approve all non-audit services, including tax services, the Auditor is to perform, and it shall consider the impact the provision of such services could have on the independence of the external audit work. The Audit Committee may delegate this authority to grant pre-approvals to one or more designated members of the Audit Committee, provided that such delegates present their decisions to pre-approve services to the full Audit Committee at each of its scheduled meetings. The Audit Committee shall not permit the Auditor to perform any non-audit service prohibited by law applicable to the Corporation;
4. meet with the Auditor and management to discuss the Corporation's annual financial statements and the Auditor's report, the interim financial statements, and management's discussion and analysis relating to both the annual and interim financial statements. Meetings with the Auditor and management shall be held separately, periodically, as scheduled by the Audit Committee;
5. review and advise the Board with respect to the conduct and reporting of the annual external audit, including but not limited to the following:
 - (a) any audit problems or difficulties encountered, and management's response thereto, and any restriction imposed by management during the annual audit;
 - (b) any significant accounting or financial reporting issue;
 - (c) the Auditor's evaluation of the Corporation's system of internal controls and related procedures and documentation;
 - (d) the post audit or management letter containing any of the Auditor's findings or recommendations, including management's response thereto and the subsequent follow-up to any identified control weaknesses; and
 - (e) any other matters that the Auditor brings to the attention of the Audit Committee;
6. prepare an Audit Committee report to be included in the Corporation's annual corporate governance disclosure; and

7. fix the remuneration of the Auditor.

C. INTERNAL AUDIT

The Audit Committee shall oversee the internal audit function of the Corporation and the relationship of the internal auditor with management. Periodically, the Audit Committee shall meet separately with each of the internal auditor and management. To this end, the Audit Committee shall:

1. review and consider the appropriateness of the internal audit function and organizational framework, including the internal audit plan and resources;
2. be involved in the appointment or removal of the internal auditor;
3. support the independence of the internal audit function and the internal auditor; and
4. review the findings of the internal auditor for purposes of considering the appropriateness of follow-up plans (see also section D.1.).

D. INTERNAL FINANCIAL CONTROL AND INFORMATION SYSTEMS

The Audit Committee will review and obtain reasonable assurance that the internal financial control and information systems are operating effectively to produce accurate, appropriate and timely financial information. In this regard the Audit Committee will:

1. obtain reasonable assurance by discussions with and reports from management, the internal auditor and the Auditor, that:
 - (a) the information systems, security of information and disaster recovery plans are adequate and reliable; and
 - (b) the internal control systems and procedures are properly designed and effectively implemented;
2. review the appointment of the Chief Financial Officer prior to his or her appointment and the adequacy of accounting and finance resources, as required; and
3. ensure that direct and open communication exists among the Audit Committee, the Auditor and the internal auditor.

E. INSURANCE

The Audit Committee shall review insurance coverage of significant business risks and uncertainties.

F. SUBSIDIARIES

The Audit Committee shall receive a report on the Corporation's material Subsidiaries, as requested from time to time, concerning any material non-routine structures e.g. special purpose entities, off balance sheet items or partnership arrangements.

G. TAX

The Audit Committee shall receive regular reports from management on the status of tax filings including:

- (a) the status of accounts for withholdings from employees and remittances of source deductions, as well as any required remittances for sales taxes and excise duty;
- (b) confirmation that returns, withholdings and remittances have been made during relevant periods; and
- (c) if applicable, major associated issues.

H. LEGAL

The Audit Committee shall receive periodic reports from the General Counsel on legal matters affecting financial disclosure, including claims, potential claims and changes to legislation.

I. INVESTIGATIONS AND ACCESS TO MANAGEMENT

The Audit Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall establish procedures for the receipt, retention and treatment of (i) complaints the Corporation may receive regarding accounting, internal accounting controls, or auditing matters, and (ii) confidential, anonymous submissions from Corporation employees expressing concern regarding questionable accounting or auditing matters.

The Audit Committee has the authority to engage independent counsel and other advisers having special competencies, as it determines necessary to carry out its duties. The Audit Committee shall determine the appropriate amount of funding the Corporation shall provide for compensation of any such advisors.

In carrying out its responsibilities, the Audit Committee shall have access to such members of the Corporation's management as appropriate, including the persons having responsibility for:

1. insurable risks, foreign currency and interest rate exposure and related derivatives;
2. tax exposures and related reserves;
3. systems security and system integrity recovery plans;
4. compliance with domestic and international regulatory requirements (such as the Corruption of Foreign Public Officials Act and Foreign Corrupt Practices Act) and material legal exposures;
5. plans and actions taken with respect to commodity price hedging;
6. financial accounting; and
7. internal audit.

The Audit Committee shall receive from management copies of any report or inquires of a material nature from regulators or government bodies which is relevant to the responsibilities of the Audit Committee set out in this mandate and of management's responses thereto.

J. GENERAL

The Audit Committee shall review corporate policies that are within the scope of the roles and responsibilities specified by these terms of reference prior to submission for approval by the Board; monitor compliance on a regular basis; and ensure these policies are periodically reviewed and kept current.

TALISMAN

E N E R G Y

The Audit Committee shall perform such other duties as may be assigned to it by the Board from time to time or as may be required by applicable law and stock exchange requirements.

In respect of matters within its purview under this mandate and delegation, the Audit Committee shall assist the Board in its oversight of the Corporation's compliance with legal and regulatory requirements.

The Audit Committee shall report to the Board at each regularly scheduled Board meeting next succeeding any Committee meeting.

The Audit Committee shall evaluate its own performance annually.