

CORPORATE SOCIAL RESPONSIBILITY

REPORT 2000

SUDAN OPERATIONS

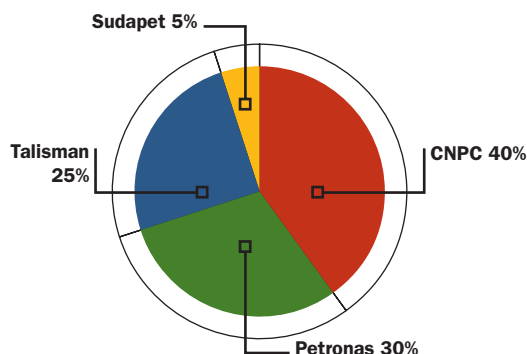


TALISMAN
ENERGY

Talisman Energy Inc. is the largest independent Canadian oil and gas producer with operations in Canada, the North Sea, Indonesia and Sudan. Talisman is also conducting exploration in Algeria, Trinidad and Colombia and has over 1,200 permanent employees worldwide. The Company's shares are listed on The Toronto Stock Exchange in Canada and the New York Stock Exchange in the United States under the symbol TLM.

OUR INVESTMENT IN SUDAN

The Company owns a subsidiary, Talisman (Greater Nile) B.V., which is in turn a 25% owner in the Greater Nile Petroleum Operating Company Limited ("GNPOC"). Other partners in the GNPOC consortium include a wholly owned subsidiary of the China National Petroleum Corporation ("CNPC"), a wholly owned subsidiary of Petronas, the national petroleum company of Malaysia, and Sudapet Ltd., the national petroleum company of Sudan. Our share of GNPOC oil production accounted for 11% of Talisman's worldwide production in 2000.



TALISMAN (GREATER NILE) B.V.

Talisman (Greater Nile) B.V. opened a representative office in Khartoum in October 1998. The office has over 110 employees (10 expatriates and 100 Sudanese nationals), who provide administrative, accounting and support services.

GREATER NILE PETROLEUM OPERATING COMPANY (GNPOC)

Oil and gas operations for the Sudan project are operated by GNPOC. Key management positions within GNPOC are occupied by representatives of each member of the consortium. Decisions made by committees within GNPOC require an affirmative vote of at least two consortium members holding at least 60% interest.

THE OIL DEVELOPMENT

GNPOC operates three exploration and two development blocks encompassing 12,200,000 acres of land. The concession area is located approximately 700 kilometers (450 miles) south-west of Khartoum¹. GNPOC also operates a 1,540 kilometer (932 mile) underground pipeline and a marine terminal at Port Sudan. Production began in 1999 and current GNPOC production is 200,000 barrels per day.

For more information on Talisman's financial and operating performance in Sudan please consult our annual report.

NOTE TO READER: The financial information in this document is provided in Canadian dollars except where otherwise stated. When currency amounts have been converted to Canadian dollars the original amount and currency is provided in parentheses. Currency exchange rates used are for last day of the year ended December 31, 2000. For the purposes of this report one Canadian dollar is equivalent to 0.6669 US dollars. One US dollar is equivalent to 258.7 Sudanese Dinars.

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Stakeholder commentary gathered by PricewaterhouseCoopers during the verification of this report is presented throughout this document and is indicated by the symbol .

This commentary was provided by a range of stakeholder groups and has been selected by PricewaterhouseCoopers to represent a balanced range of opinions regarding Talisman and our investment in Sudan. Paragraphs verified by PricewaterhouseCoopers are indicated by the symbol .

The situation in Sudan is tragic and complex. The following descriptions have been provided to give a brief overview of the country, and the many problems its people face.

This information is presented to aid understanding of the information given in this report. The opinions and beliefs expressed in the descriptions are those of the authors. Further information on Sudan, and links to the complete text of the reports referenced, can be found on our website at www.talisman-energy.com.

SUDAN AS DESCRIBED BY THE CANADIAN DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

“A civil war has raged in Sudan for most of the 43 years since independence in 1956. Although the origins of the conflict are found in the underdevelopment of the south during the colonial period, it is no longer simply north/south in scope. The Sudan Peoples’ Liberation Movement (SPLM) – a southern-based movement – has been fighting consecutive governing regimes. It has been joined by armed northern parties opposed to the current governing regime, led by the National Islamic Front (NIF), which seized power in a 1989 coup.

Together they have formed a coalition called the National Democratic Alliance (NDA) that includes all the political parties that existed in the country prior to the 1989 coup, with the exception of the NIF, which retains power. Thus, the war has grown from a southern conflict to a complex crisis that is national in scale. The principal factors now driving the conflict are disparities in the allocation of power, land and resources, the imposition of sectarian laws and the violation of the human rights of Sudan’s marginalized people.

As is common in contemporary conflicts, civilians – particularly women and children – are the principal casualties. The human toll arising from war-related causes in Sudan, including famine, is horrific. Nearly two million people, according to the United Nations, have died since 1983. In excess of four million people are internally displaced, dispossessed of their homes and separated from their families.”

**“CANADA ANNOUNCES SUPPORT TO SUDAN PEACE PROCESS”, NO. 232, OCTOBER 26, 1999.
WWW.DFAIT.MAECI.GC.CA**

SUDAN AS DESCRIBED BY THE WORLD BANK

“Sudan gained its independence from Britain in 1956. The first episode in what has become an intractable civil war in southern Sudan occurred through a mutiny of southern forces in 1955. Civil strife escalated as southern demands for political expression and economic development were ignored by the ruling elite in the north. Sudan consequently endured a civil war that has spanned more than three decades. Since 1997, the Sudan People’s Liberation Army (SPLA) has controlled much of the south. More recently, the southern-based rebels and the government have conducted direct negotiations under the auspices of the Inter-Governmental Authority on Development (IGAD).

Economic progress has been constrained by the civil war, military expenditures, social dislocation, deterioration of basic infrastructure and lack of access to aid and foreign investments. Sudan is also vulnerable to external shocks, including floods and drought. As a result, poverty levels have risen despite growth.

Since 1996, GDP growth has averaged 5.5% led mainly by agriculture which accounts for an estimated 45% of GDP. Inflation has slowed from 133% to 16%. The general economic improvement has been helped by reforms supported by the IMF. These reforms emphasize containing fiscal deficits, and limiting monetary growth and inflation.

The key structural reforms aim at enhancing efficiency by liberalizing the trade and exchange rate regime, phasing out price controls and privatizing public enterprises.

More recently, Sudan has benefited from investment in oil production which is expected to reduce the country’s import bill and improve the availability of foreign exchange for development financing.”

**COUNTRIES: SUDAN, SEPTEMBER 2000
WWW.WORLDBANK.ORG**

SUDAN AS DESCRIBED BY THE UNITED STATES ENERGY INFORMATION ADMINISTRATION (EIA)

“Sudan gained its independence from Egypt and the United Kingdom in 1956. The current government, led by General Omar Hassan Ahmad al-Bashir, came to power in 1989 after overthrowing a transitional coalition government. A new constitution was promulgated on January 1, 1999. Multi-party presidential and parliamentary elections are scheduled for December 2000.

Sudan is among the world’s poorest countries. Its economy is primarily agricultural – a mix of subsistence farming and production of cash crops such as cotton and gum arabic. In the past four years, however, Sudan’s economic performance has been strong; annual GDP growth has averaged 5.5%, while inflation has slowed from 133% to 16%. Exports have grown by one-quarter to \$780 million, while Sudan’s current account deficit has dropped from nearly 8% of GDP to 2.4%. Sudan’s real GDP growth rate is forecast at 6.5% in 2000, while inflation is predicted to reach the 9% year-end target set by the government. In May 2000, the International Monetary Fund (IMF) expressed its satisfaction with Sudan’s implementation of a 1999-2001 structural adjustment program. However, representatives of the IMF advised the Sudanese government to move to full market liberalization in the petroleum product sector as quickly as possible and to adopt full public disclosure of oil revenue data. In August 2000, the IMF lifted the suspension – in place since 1993 – of Sudan’s voting rights in the IMF.

Sudan recently has become more engaged in the global economy. In February 2000, Sudan opened its Red Sea Free Trade Zone, designed to encourage foreign direct investment, and in March 2000, Sudan publicly repeated its desire to join the World Trade Organization. Since the end of 1999, Sudan has signed various trade and investment agreements with Saudi Arabia, Bahrain, Iraq, Kuwait, Ethiopia, and Syria, while simultaneously predicting that Malaysian investment in Sudan, particularly in the oil, gas, and petrochemical industries, would exceed \$1 billion by the end of 2000.

Despite its economic progress, Sudan still faces developmental obstacles, including a limited infrastructure and an external debt at the end of 1999 of nearly \$24 billion, representing a debt-to-GDP ratio of 218.3%. Furthermore, the government remains embroiled in the long-running conflict with rebel movements in the south of the country, inhabited primarily by non-Muslims. The conflict has maintained the scarcity of national development resources, despite the increase in government oil revenues. Over the past two decades, the civil war has claimed 1.5 million Sudanese lives.”

SUDAN COUNTRY ANALYSIS BRIEF NOVEMBER 2000 WWW.EIA.DOE.GOV



For a more detailed map of the concession area please refer to page 24.

OUR COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY IN SUDAN

Corporate social responsibility means conducting activities in an economically, socially and environmentally responsible manner. It also includes 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 operate including creation of jobs, expansion of local infrastructure and support of community projects that create opportunities for a better future. As a responsible business we also believe it is our duty to observe and promote ethical business practices, and advocate respect and tolerance by and for all people.

Commitment

HUMAN RIGHTS

We are committed to addressing human rights concerns arising from Talisman and GNPOC operations. We support the principles of the Universal Declaration of Human Rights and advocate these beliefs with our joint venture business partners and the Government of Sudan.



COMMUNITY PARTICIPATION

We work to ensure that local communities receive long term, sustainable benefits from our operations. We are committed to consulting with local communities, governments and non-governmental organizations and our joint venture business partners to identify suitable projects and initiatives.



EMPLOYEE RIGHTS

We respect individual rights and provide a safe and healthy working environment. We provide meaningful employment opportunities for local people, competitive pay, and are committed to training and developing our staff.



BUSINESS CONDUCT

We are committed to carrying out all business activities in accordance with our Policy on Business Conduct, the Sudan Operating Principles and the International Code of Ethics for Canadian Business.



HEALTH, SAFETY AND ENVIRONMENT

We are committed to our corporate Health, Safety and Environment Policy. High standards in occupational health, safety and environment are an essential part of achieving efficiency and profitability in the oil and gas business. We strive to provide safe and healthy operations, protect the environment in which we operate and respect the interests of neighbors and other stakeholders.

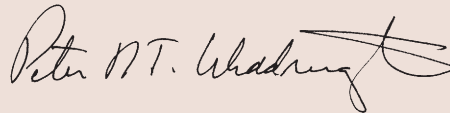


Corporate social responsibility must be a mainstream issue, one that is intrinsic to all business. To achieve long-term growth and value in the oil and gas industry, the Company must demonstrate technical and financial excellence, but those skills are not enough. Shareholders, employees, governments, interest groups and the general public demand more from corporations than just profitability. They expect businesses to be responsible in all areas of social and environmental performance.

Public concern has clearly been in evidence over the Company's investment in Sudan, particularly because of the widespread reports of human rights violations in that country. We have listened to these concerns and responded by enhancing Talisman's existing governance procedures to ensure accountability and control regarding corporate social responsibility issues. We have responded by endorsing and approving the Sudan Operating Principles, management structures and participation initiatives outlined in this independently verified report. We have also endorsed the development of formal policies and procedures to implement codes of conduct and international standards that define appropriate activities for businesses.

These enhanced governance procedures are being implemented because they are crucial to our long-term success. By adhering to codes of conduct and principles of responsibility we can be more than "good neighbors": we can demonstrate commitment to human and employee rights, help build and improve communities and develop local capacity, all of which encourage stability. These actions provide obvious benefit to communities as well as creating a more desirable, stable and economic environment for the Company to work in. For example, not only does employing local people in the concession area provide income streams to their families and help develop local skills, it is also more cost-effective for the business than flying staff in from Khartoum or overseas.

Choosing to operate in a country with internal conflict amplifies the need for rigorous commitment to and disclosure of performance against corporate social responsibility principles. On behalf of the Board I invite you to evaluate the efforts described in the following pages of our first corporate social responsibility report and to monitor our progress in the future.



Peter Widdrington, Chairman of the Board

GOVERNANCE AND MANAGEMENT SYSTEMS

Corporate social responsibility activities and objectives have been formalized within Talisman's corporate governance and management systems. In March 2000, a dedicated Corporate Social Responsibility Group was established which reports to the Vice-President of Legal and Corporate Projects, who in turn reports to the President and Chief Executive Officer. This group is responsible for the implementation of the International Code of Ethics for Canadian Business and the Sudan Operating Principles. Talisman's internal audit group has played a large role assisting with the implementation program that has been put in place.

In addition to the broader responsibilities allocated to the Corporate Social Responsibility Group, specific performance contract clauses allocate responsibility for corporate social responsibility initiatives (including the implementation of the International Code of Ethics for Canadian Business and the Sudan Operating Principles) to the President and Chief Executive Officer;

Vice-President, Human Resources and Corporate Services; Vice-President, International Operations; Vice-President, Legal and Corporate Projects; and the General Manager, Sudan. Performance contracts translate Talisman's annual overall business plan into specific, measurable objectives. Achievement against these objectives, combined with the overall success of the Company, links directly to the annual compensation of the above-mentioned individuals.

Comprehensive corporate social responsibility reviews and updates on Sudan are provided to the Board of Directors twice a year. Other reports are provided throughout the year as deemed appropriate. A steering committee consisting of the executives named above, the Senior Advisor, Corporate Responsibility and Program Coordinator, Corporate Responsibility also meet weekly to review issues related to Sudan and the implementation of the International Code of Ethics for Canadian Business.

“In all countries where we operate, we believe we have a duty to advocate respect for human rights where there are abuses and we will strive to ensure that in this regard our actions are scrupulously fair and that we lead by example.”

I am proud to present Talisman’s first corporate social responsibility report on Sudan. We have been asked, both formally by way of a shareholder’s resolution and informally through discussions and meetings with various interested groups and individuals, to ensure that we are demonstrating our compliance with the International Code of Ethics of Canadian Business (“the Code”)². It is important that we demonstrate this, not only with respect to the financial and operational results of our investments, but also in regards to the social and environmental impacts of those activities. I can assure you that we take this responsibility very seriously throughout the Company. It is representative of the way we do business both in Sudan and around the world. I would also like to recognize the various groups that urged the Company to produce this document. Our organization is the better for it.

To make this report possible, initiatives have been undertaken throughout our organization, by the Board of Directors, senior management and many dedicated employees. We have formalized operating principles for Sudan based on the Code. We have responded to concerns that we were unwilling to communicate openly about Sudan and have renewed our commitment to transparency and responsive dialogue with our stakeholders and the people affected by our operations. While we acknowledge that many of the policies and



► **Jim Buckee,**
President and Chief Executive Officer

processes described in this document are in their infancy and that our corporate social responsibility activities are very much a “work in progress”, we feel that we have demonstrated an ongoing commitment to this process. Having this report independently verified has provided us with an objective assessment of where we are starting from, and this is helping us to move forward.

Producing this report has also been a learning experience. It has helped us formulate the way we think about communicating our performance and how that performance compares to international standards and expectations. We have always believed that companies should operate in a manner that respects the right of local communities to benefit from their presence. But we have come to understand and appreciate that we need to demonstrate how we put these beliefs into practice in a public and documented way.

We have developed and implemented processes to measure the impact of our operations in Sudan and created a framework through which benchmarks and quantitative and qualitative indicators can be reported. This was, and will continue to be, challenging because of the nature of our operations in Sudan. We are a minority interest holder in the Greater Nile Petroleum Operating Company Limited (“GNPOC”) consortium and many key concerns raised by stakeholders are outside our direct control. Further many of the concerns identified are complex social issues, which are not easily resolved or effectively measured. Internationally accepted standards have not been developed for this type of reporting, but we hope that this document provides useful information that can be used to evaluate our efforts.

I believe that as a business we should focus on delivering shareholder value and to do this effectively, we must achieve high standards of social and environmental performance. In all countries where we operate, we believe we have a duty to advocate respect for human rights where there are abuses and we will strive to ensure that in this regard our actions are scrupulously fair and that we lead by example. The form and degree of this responsibility depends on the particular needs and circumstances of each community in which we operate.

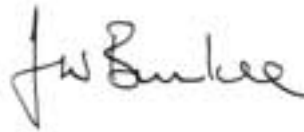
In Sudan, where conflict and reported human rights violations are widespread, I believe our responsibility is great. That is why we have undertaken advocacy efforts with our partners and with the Government of Sudan. In the past year I have personally raised the importance of upholding international standards for human rights and business conduct as well as the need for a more equitable distribution of the benefits of oil development to each of these groups.

We have also made changes in our own operations. We have introduced an internal human rights monitoring and investigation program for the concession area. This program is supported by the services of a full-time Talisman human rights Field Coordinator. The

information gained through this program will give us a better understanding of what is happening in our operating environment. We are drafting for the consideration of our partners a security protocol for GNPOC and the Government of Sudan. In other areas, we have funded a number of development projects and established a formal stakeholder engagement program to ensure that local communities are consulted. And the management processes and systems that we report on will, I believe, stand up to close scrutiny.

We recognize that we have made mistakes in the past, such as when we failed to properly communicate our relationship with humanitarian organizations during the Bentiu emergency³, but I am confident that our future performance will demonstrate improvement. To build upon the foundation laid by this report and continue constructive dialogue, we invite you to read on. Decide for yourself how we have performed.

For our part we believe that we are moving in the right direction but we also acknowledge that there is much more to do. We need to do more to communicate with, understand and respond to the concerns of people employed by or living near our operations. We need to do more to ensure that the oil development benefits all the people of Sudan. The Canadian Government has expressed the view that “trade leads to development, and development leads to respect of human rights and leads to respect of democracy”⁴. We believe that this will be the case in Sudan.



Jim Buckee

President and Chief Executive Officer

³ SEE PAGE 40 OF THIS REPORT FOR MORE INFORMATION ON THE BENTIU EMERGENCY.

⁴ “CHRETIEN, HUGE TEAM ARRIVE IN BEIJING” CALGARY HERALD, SUNDAY FEBRUARY 11, 2001, PA4

The International Code of Ethics for Canadian Business
Sudan Operating Principles
Key Stakeholder Concerns

High level principles.> More detailed operating framework.> Prioritize Issues.

WHY ARE WE PRODUCING THIS REPORT?

At the Company's Annual General Meeting on May 3, 2000 a number of shareholders presented a proposal to the shareholders of Talisman Energy Inc. This proposal raised concerns about the Company's investment in Sudan. It asked that the Board of Directors take a number of measures including the preparation of an independently verified report on the Company's compliance with the International Code of Ethics for Canadian Business within 180 days.

At the same meeting, a resolution proposed by management was also presented that asked the Board of Directors:

1. to cause the Company, in consultation with an independent third party, to develop and implement procedures for monitoring the Company's compliance with the International Code of Ethics for Canadian Business, including the human rights provisions thereof, with respect to the operations of the Company and its subsidiary in Sudan; and
2. to cause to be prepared annually an independently verified report on the Company's compliance with the International Code of Ethics for Canadian Business with respect to such operations and to provide a summary of each such report to the shareholders in conjunction with the Company's normal annual reporting to shareholders and to make a full report available to shareholders and the public upon request.

The shareholders of Talisman Energy accepted the resolution proposed by management, as described above, at this meeting. This report has been prepared in accordance with the terms set out in the resolution and has been approved by the Board of Directors.

TRANSLATING THE INTERNATIONAL CODE OF ETHICS FOR CANADIAN BUSINESS

This report presents our efforts to demonstrate compliance with respect to the International Code of Ethics for Canadian Business ("the Code"). To measure our performance, we first had to translate the Code into clear and definable actions that could be implemented in Sudan. As a result we created the Sudan Operating Principles ("the Principles"). These Principles were developed by a team of internal and external experts in business ethics, social auditing and international law. To ensure that the Principles were comprehensive and consistent with international standards we compared them to other codes such as the Amnesty International Guidelines for Companies, Social Accountability 8000, the United Nations Global Compact, the Taskforce on the Churches and Corporate Responsibility Benchmarks for Measuring Business Performance and the Global Sullivan Principles.

In the spirit of the Code, the Principles set operating standards in the areas of human rights, community participation, employee rights, environmental protection, business conduct and stakeholder engagement.

December 1999

Adoption by Talisman of the International Code of Ethics for Canadian Business

March 2000

Establishment of Corporate Social Responsibility Group

May 2000

Annual General Meeting – Approval of the shareholder resolution mandating the production of this report

September 2000

Approval of the Sudan Operating Principles

Talisman Objectives

GNPOC Objectives

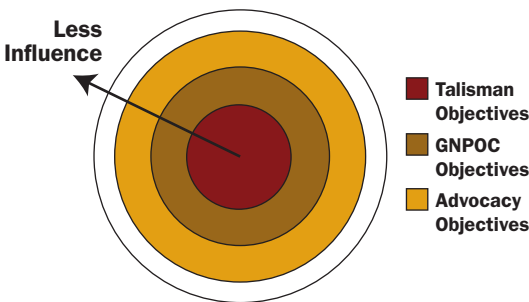
General Advocacy Objectives

.....► Talisman and GNPOC have developed policies and procedures under each of these headings which are capable of verification. As these policies and procedures are implemented Talisman's performance may be capable of verification.

These Principles also attempt to address key areas of stakeholder concern identified in discussions held over the past year.

Each Principle has also been linked with measurable or identifiable objectives and specific target dates for completion. There are three categories of objectives, based on Talisman's ability to influence their achievement:

- **Talisman objectives:** those which are under our direct control and responsibility;
- **GNPOC objectives:** those objectives whose achievement depends on the agreement or support of our GNPOC business partners; and
- **Advocacy objectives:** those over which we have minimal control but for which we believe we have a responsibility to advocate within governments or international organizations.



The relevant Principles, stakeholder concerns and objectives are identified at the beginning of each section of this report.

THE RELATIONSHIP BETWEEN VERIFICATION AND THE CODE

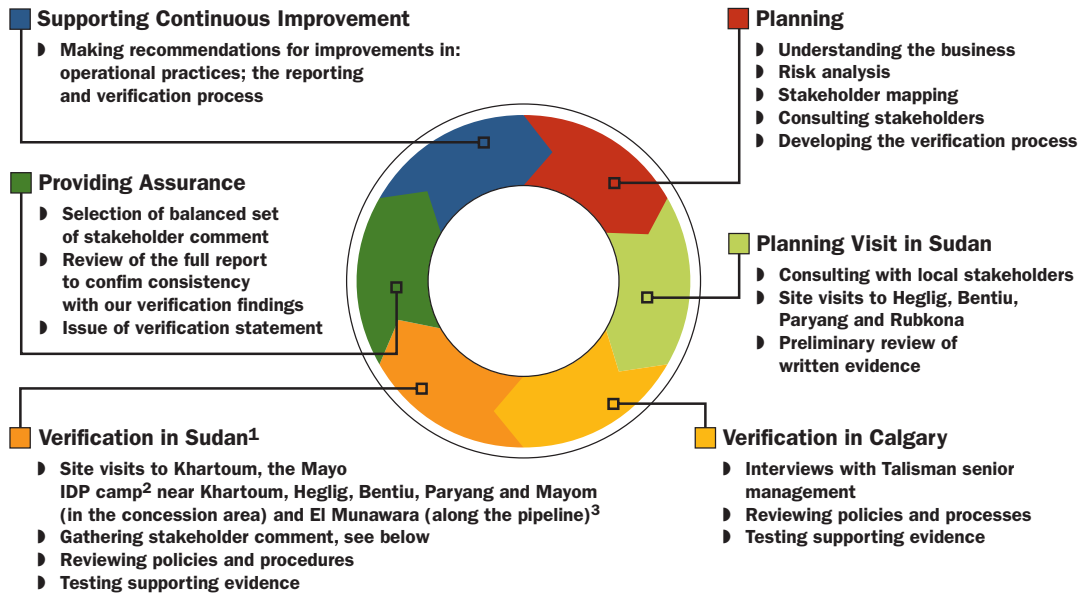
We have retained PricewaterhouseCoopers to verify those elements of this report which are capable of objective independent verification. The parts which are verified are clearly marked with the symbol . Unverified portions of this report generally relate to background information or our beliefs, opinions or intentions where verification is not always possible. We are committed to being transparent in this report and in all our communications. We firmly believe that verification is an integral part of transparency by providing assurance to our stakeholders that what we are saying is reliable and balanced.

This report is not a broad overall assessment of our presence in Sudan. Rather it describes how we have interpreted the Code through the Principles which we have adopted. It is these Principles which make the Code "come alive." We believe that by internalizing these Principles within Talisman we (and where relevant, GNPOC) are in compliance with the Code. We are also putting these Principles into practice and have asked our verifiers to check and report on what we have done. The verification reflects the stage that Talisman and GNPOC have reached in introducing the Code. Therefore in many cases this does not yet extend to verifying the outcomes of the policies and procedures introduced. The following sections of the report present our progress in the past year.

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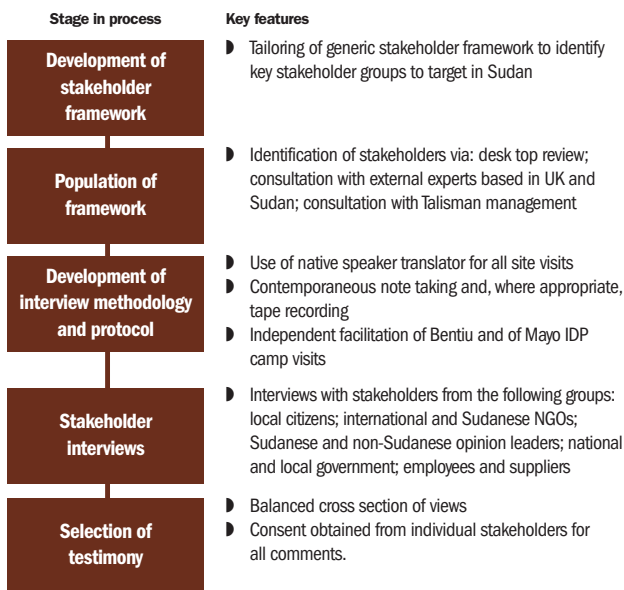
- January 2001**
Gathering of formal Talisman stakeholder commentary
- March 2001**
Completion of external verification of this report
- March 2001**
Approval of the corporate social responsibility report by the Board of Directors
- May 2001**
Annual General Meeting

**FIGURE 1
AN OVERVIEW OF THE VERIFICATION PROCESS**

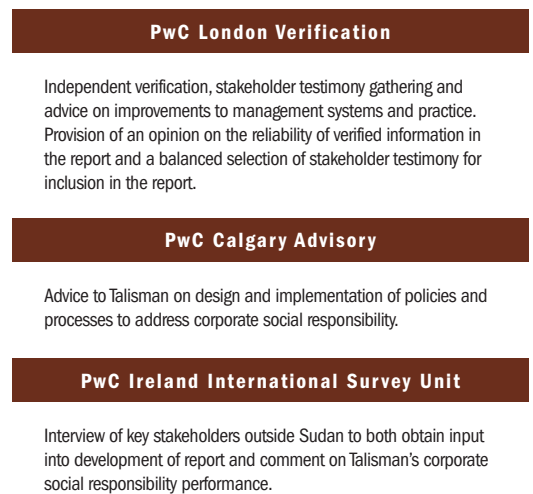


1 We also interviewed six NGOs in Nairobi as part of our visit.
 2 IDP stands for internally displaced peoples
 3 For a map that shows the location of the towns and villages in the concession, see page 24.


**FIGURE 2
STAKEHOLDER COMMENT
GATHERING IN SUDAN**




**FIGURE 3
PRICEWATERHOUSECOOPERS' ROLE**



To: Talisman Energy, Inc.
Talisman Greater Nile (B.V.)

Talisman has developed a framework of operating principles and objectives in order to embed compliance with the International Code of Ethics for Canadian Business (“the Code”) into its operations in Sudan. Further it has introduced policies and procedures to implement these principles and objectives. We have been asked by Talisman to verify the reliability of verifiable statements and data in the Report relating to these policies and processes within Talisman and, where covered by the framework, within GNPOC. We have done so and marked these sections in the Report with the symbol . The relationship between what we have verified and the Code is further explained on page 9.

We have also been asked to gather comments from stakeholders across a range of Sudan and Nairobi-based stakeholder groups and to select a balanced range of comments for inclusion in the Report. These comments are marked with the symbol .

The preparation of the Report is the responsibility of management. Our responsibility is to express an opinion on the reliability of the statements and data indicated based on our verification work, which is illustrated on page 10.

OPINION

In our opinion, the statements and data indicated are supported by appropriate underlying evidence and are fairly stated in all material respects and the comments we have gathered and selected for inclusion in the report are a balanced representation of the views that we heard.

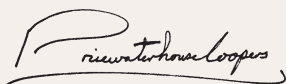
Basis of opinion

There are currently no statutory requirements or generally accepted international standards for the preparation, public reporting and attestation of corporate social responsibility reports. In the absence of such standards, our verification approach reflects emerging best practice and is in accordance with the International Standard on Assurance Engagements. We therefore planned and performed our work in order to obtain reasonable, rather than absolute, assurance on the statements and data tested. In gathering stakeholder comment we used the structured approach that is illustrated on page 10. We sought to make a balanced selection of the comment for inclusion in this report. We believe our work provides a reasonable basis for our opinion.

Considerations and limitations

Our site visit to Bentiu was facilitated by an organisation independent of Talisman, however their involvement had to be cleared by GNPOC security¹. Our visit to the Mayo IDP camp was facilitated by an independent individual. Our other visits were not facilitated. Transport to sites was provided by Talisman but no Talisman, GNPOC or security personnel accompanied us during the visits, with the exception of Paryang where national security personnel¹ accompanied us during the interviews. We used a native speaker translator, not employed by Talisman or GNPOC, when interviewing locals in the Dinka and Nuer languages. He also required GNPOC security clearance to visit the concession area with us. We used a PricewaterhouseCoopers staff member for interviews in Arabic. We did not visit any sites in the south of Sudan outside the concession area but we did speak to Southern Sudanese in Khartoum and to international non-governmental organisations in Nairobi. Our verification of Talisman’s review of GNPOC’s Health, Safety and Environment management system was by interview with Talisman personnel and review of relevant documentation but did not include any re-performance or site visits.

Signed,



PricewaterhouseCoopers, London
March 6, 2001

1 FOR AN EXPLANATION OF THE VARIOUS GROUPS THAT PROVIDE SECURITY FOR THE GNPOC OIL OPERATIONS, SEE PAGE 14.



The International Code of Ethics for Canadian Business

Support and promote the protection of international human rights within our sphere of influence.

Not to be complicit in human rights abuses.

Sudan Operating Principles

We are committed to upholding the Universal Declaration of Human Rights.

We are committed to addressing human rights concerns arising from our own and GNPOC operations.

Key Stakeholder Concerns

Security forces activities.

Use of oilfield infrastructure.

Human rights.

human rights



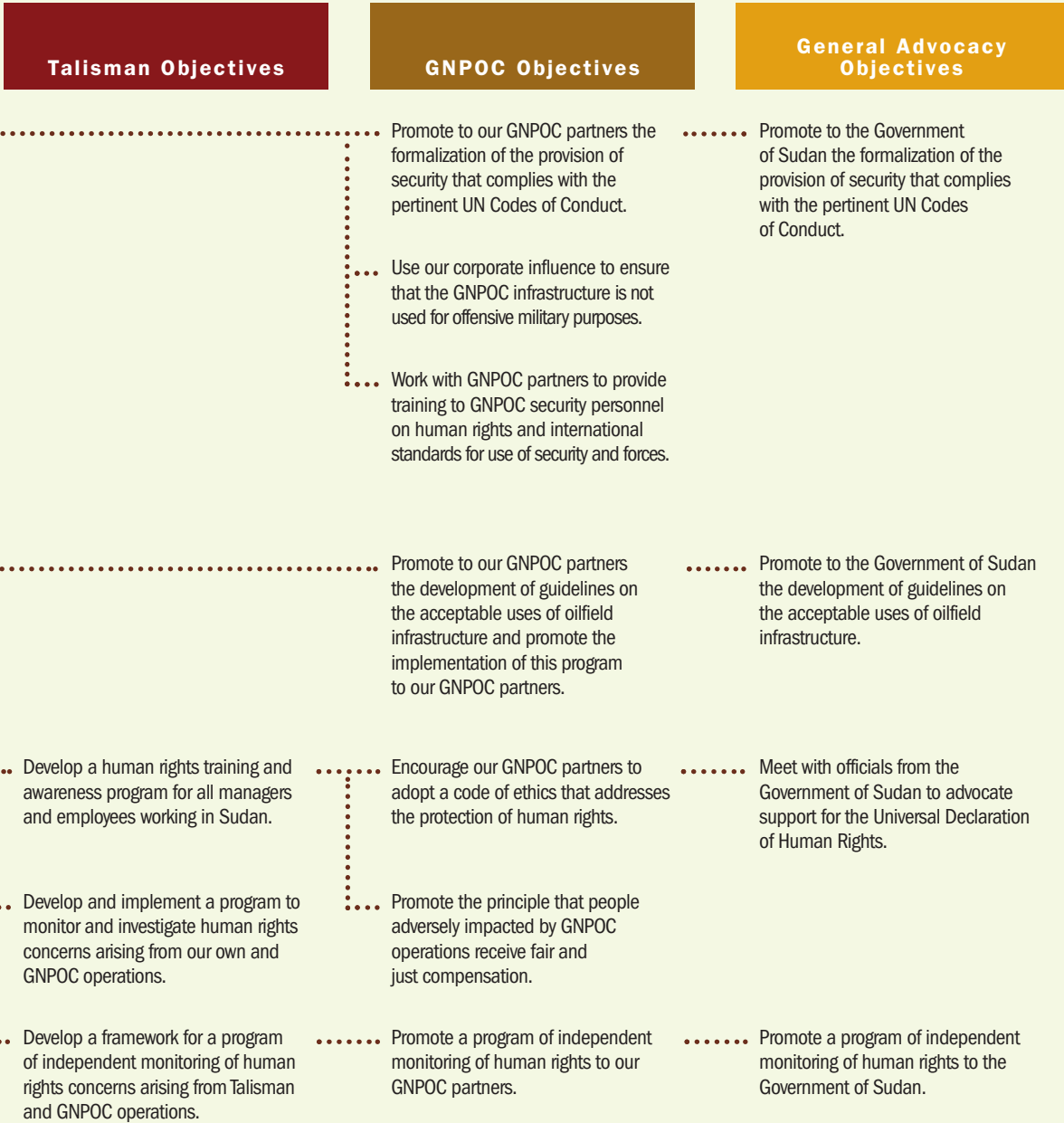
“We, the churches, actually feel that the oil exploration should be suspended until peace is achieved. During peace time whoever wants to do business, could do it without all these concerns.”

Church leader, Khartoum



“If you pressure Talisman to leave Sudan then will the remaining actors take any action to address these critical issues? At least Talisman has taken notice and responded ... they certainly have to try, and they certainly have to try to influence others.”

Director of a Nairobi-Based International NGO Operating in Southern Sudan





“I came back because the people and the factions south of the river fight among themselves and mistreat the people. I wasn’t happy and I didn’t feel safe. I came (back) to Mayom because there is peace here and the town is growing.”

A Mayom citizen who left the town approximately one year ago because of conflict

The tragic conflict in Sudan and the documented human rights abuses by all sides have generated intense international debate and discussion. Our involvement as a “western company” in Sudan has become a focal point in this dialogue. We recognize that as a business we have an additional responsibility to protect human rights when operating in a country with civil conflict. Within our sphere of influence we have begun to address human rights concerns in a number of ways.

- ✓ We have encouraged GNPOC to adopt a security protocol that supports the Universal Declaration of Human Rights within Sudan and defines the appropriate use of oil field infrastructure, implemented a Talisman human rights monitoring and investigation system, and provided human rights awareness training to Talisman employees.

SECURITY FORCE ACTIVITIES

The safety and security of Talisman employees is a primary concern. In a country facing internal conflict, the appropriate security measures can be hard to define and very challenging to manage. We consider that we must protect our personnel and property without undermining the security of people in surrounding communities and especially without causing human rights violations in those communities. We also feel that community development efforts in our operating areas promote stability.

There is an inherent risk to those that work in the oilfields and to the property of those that operate in Sudan. Periodic threats are made by rebel forces and

clearly indicate that both personnel and property are considered legitimate targets in the war against the Government of Sudan. Within this context, as is often the case in international operations, the Government of Sudan has primary responsibility for the protection of oilfield staff and property. This effort is coordinated with internal GNPOC security personnel. Talisman has two full-time security personnel to provide an assessment of risks.

Security Levels

Security Organization	Primary Responsibility
Government of Sudan Military	Provide general support to GNPOC oilfield security operations
Government of Sudan Petroleum Security	Coordinate overall security for all GNPOC areas of operations
Government of Sudan National Security	Responsible for internal security throughout the country
GNPOC Security Department	Liaison between GNPOC operations and other security agencies (Unarmed)
Talisman Security Personnel	Security advisors to Talisman (Unarmed)

- ✓ We are developing a framework for the provision of security in Sudan. We have reviewed the issues with a number of different organizations. As well we have reviewed the “Amnesty International Human Rights Principles for Companies” and the recent “Voluntary Principles on Security and Human Rights”. These principles were developed by the governments of the United States and United Kingdom and selected US and UK firms in the resource sector.



“The main problems in the oilfield area is the forced movements of populations. Access to grazing land is a good example. For the security of oil operations, trees are fallen and grass is regularly burnt in oil concessions. Therefore, pasture for cattle has drastically reduced. The original inhabitants of the area are pastoralists. If they (do not) have access to grazing lands, their food security is at threat and they are forced to leave. Building a clinic or a water tower will never balance forced movements of populations. Development work is coming too late if the population has been forced to move.”

International NGO, Khartoum

✓ A draft agreement regarding the provision of security for advocacy within GNPOC and the Government of Sudan was prepared by Talisman in December 2000. The draft agreement proposes that the Government of Sudan should ensure that all security forces comply with the UN Code of Conduct for Law Enforcement Officials, UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials and the GNPOC Code of Ethics in the course of providing security to the project. The draft agreement also proposes that GNPOC should have the right to investigate any reported violation of the terms of the agreement or any use of force within the GNPOC operational area, and to publicly disclose the results of such investigations. We have also raised the need for a formal security arrangement within GNPOC and at meetings with the Government of Sudan.

✓ This proposed agreement was then circulated to the governments of Canada and Sudan, GNPOC security and human rights groups. We have received responses from four organizations representing widely ranging positions. With the assistance of our partners and the Government of Sudan we will endeavor to accommodate these various viewpoints in an effective final agreement.

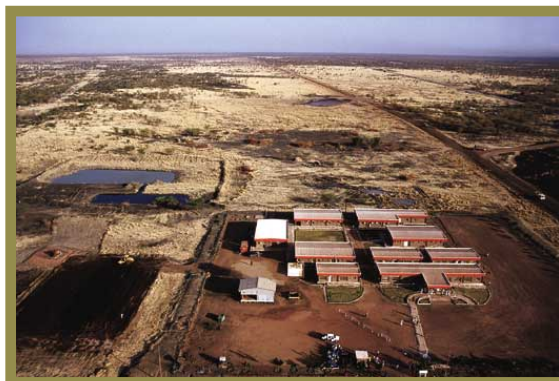
USE OF OILFIELD INFRASTRUCTURE

The creation of oilfield infrastructure in the concession area, especially the construction of roads, has the potential to positively impact local communities. Pursuant to the concession agreements, oilfield infrastructure is legally owned by the Government of Sudan and not under direct Talisman control. However, the use of oilfield infrastructure for non-defensive military purposes is of great concern to Talisman. We have, and will continue to

make, our concerns known to our partners and to the Government of Sudan.

✓ The GNPOC Code of Ethics⁵ adopted in September 2000 contains the principle of “refraining from availing the company resources for political, tribal and armed conflicts”. The draft security agreement also addresses the use of oilfield infrastructure and proposes that the Government of Sudan refrain from undertaking any offensive activity that directly or indirectly uses any property or assets owned, leased or operated by GNPOC or involving the participation of any GNPOC employees or contractors.

Talisman recognizes that the clear definition of offensive and conversely defensive security activity is a critical component of this agreement. Talisman defines defensive security support as that which assists those forces legitimately deployed within the concession area to protect personnel and property and which, in achieving those objectives, uses a proportionate level of force. Offensive activity is defined as anything outside the parameters defined as defensive.



▶ Heglig base camp.

5 THE COMPLETE TEXT OF THE GNPOC CODE OF ETHICS CAN BE FOUND ON OUR WEBSITE AT WWW.TALISMAN-ENERGY.COM



“It is difficult to tell whether there has been displacement in the vicinity of the oil wells because of the seasonal patterns in population movement. There is a case for saying that displacement is occurring when these wells are sunk in the middle of a nomadic route.”

Western diplomat, Khartoum

✓ The Heglig airstrip was closed in December 2000 to be upgraded for oilfield use and is currently not open to air traffic. We have advocated for improvements in the current airstrip monitoring processes to ensure better documentation regarding the number, type, client and operator of all aircraft using the facility. GNPOC plans to install a computerized monitoring system before the airstrip reopens in 2001 to facilitate these process improvements and to record all usage.

✓ Despite the Company’s stated position regarding the use of the Heglig airstrip and advocacy efforts in this regard, we believe that there were at least four instances of non-defensive usage of the Heglig airstrip in 2000. On these occasions helicopters or planes landed on the airstrip for reasons that we could not determine were related to oilfield security and their presence was considered non-defensive by Talisman. Talisman has consistently requested that incidents of this kind do not occur.

HUMAN RIGHTS

✓ Senior management has engaged in extensive dialogue with the Government of Sudan, the Government of Canada and various diplomatic representatives in Khartoum regarding human rights issues in Sudan. In the course of such dialogue, Talisman has expressed its support for the protection of human rights in Sudan. Issues including the reported bombing of civilians, human rights monitoring, child soldiers and the peace process have been raised by senior management in discussions with Government of Sudan officials including the President and the Ministers of Energy, Foreign Affairs, Interior and Defense.

Jim Buckee has also been interviewed by newspapers in Sudan and on television within Sudan and neighbouring countries on this issue. He has been widely quoted as supporting the protection of human rights and the peace process in Sudan on these occasions.

✓ Advocacy also occurs in discussions with our partners in the GNPOC consortium. The recent adoption of a Code of Ethics by GNPOC is an example of what can be achieved through advocacy. As a direct result of discussions held between Talisman, CNPC, Petronas and the Sudanese Government, a Code of Ethics was adopted on September 29, 2000 by the GNPOC Board of Directors. This code includes formal guidelines and principles for the protection of human rights and corporate social responsibility. By adopting the code, GNPOC has committed to uphold these principles. This code also establishes a framework through which human rights issues may be addressed by the consortium. The complete text of the GNPOC code is available on our website.

✓ GNPOC is now planning implementation of its Code of Ethics in 2001. To support this initiative, Talisman has recommended to GNPOC that it adopt operating principles and objectives similar to the Sudan Operating Principles adopted by Talisman.

The area of advocacy is one that is new to Talisman, and the Company is continually learning and developing what it believes to be appropriate “boundaries” for our efforts. We need to ensure that we can express our views and raise issues that concern us in an effective manner. We will continue to explore what is responsible



“It is very important for the Government of Sudan that Talisman is responsible for seeing that the operations of GNPOC are carried out while maintaining social justice, equal opportunities, etc. It is out of place for Talisman to look at the situation outside its sphere of influence. Talisman’s concern is only in the area where it operates.”

Senior Official of the Sudanese Ministry of Energy and Mining

in terms of corporate political influence and to what extent and under what circumstances that influence should be used. As with many human rights issues, opinions vary widely on this matter. We are consulting with peer companies and human rights organizations regarding how we should approach speaking on issues that are more societal in nature.

Displacement

The issue of displacement is often raised when discussing oil development and Sudan. There have been many media and third-party reports of population displacement in oil field areas. We are aware that historically there has been conflict and strife in the 19,000 square mile concession area amongst Baggara, Dinka and Nuer groups and militias sometimes aligned with the government, sometimes not. Conflict still periodically occurs within the GNPOC concession.

We believe that all persons whose land use has been impacted by GNPOC operations in the concession and along the pipeline should receive fair and just compensation. In the concession area, GNPOC has compensated people affected by GNPOC operations, such as the drilling of wells and seismic exploration activity. However, the process of identifying people affected by such activity and the provision of fair compensation has not been well documented. We intend to work with GNPOC to establish a more effective and verifiable process for assessing and paying compensation to people whose homes or crops are affected by GNPOC activities.

► New construction in Paryang.



✓ During the planning and construction of the pipeline from Heglig to Port Sudan, the Government of Sudan (which is legally responsible for assessing and distributing compensation for people whose land use was affected by the pipeline), formed a Pipeline Compensation Committee to make assessments and payments. Based on discussions with the Ministry of Energy and Mining we understand that through this process thousands of compensation cases have been paid, approximately 100 cases are still under discussion and 300 cases exist where people cannot be found (most in the Omdurman area).

✓ GNPOC is funding the Pipeline Compensation Committee and to date total payments by GNPOC are \$2,761,952 (\$1,841,946 US). It is our belief that the total compensation paid will be in the range of \$3,000,000 (\$2,000,000 US) to \$3,750,000 (\$2,500,000 US).

Monitoring and Investigation Program

- ✓ Talisman has developed a detailed human rights monitoring and investigation program manual to address concerns arising from GNPOC operations. The necessary management systems to support this program were also developed. This program is based on the Universal Declaration of Human Rights and was introduced as a pilot project in August 2000. Talisman's human rights Field Coordinator, in conjunction with security staff, oversees this program.
- ✓ The Field Coordinator is responsible for actively seeking out information on human rights incidents, acting as the main field contact on human rights issues and incidents within GNPOC's sphere of influence, and maintaining a system of documentation and records which provides a clear audit trail. To ensure senior management are kept informed of any developments, the Field Coordinator prepares and submits monthly summary reports of monitoring activities to the General Manager, Sudan.
- ✓ Seven documented cases have been investigated through the program in 2000. Records are maintained for each case. These cases include investigations of physical violence against workers, verbal abuse and dismissal from work. To date, one case has been closed as the matter was dealt with internally by the contractor involved. The others remain open pending resolution or continued investigation. Our records show that a further 10 cases were opened in November 2000 to keep files of initial interviews with people who have been displaced. These cases include six individuals who have come to Paryang during 2000 from surrounding villages to escape from famine, disease or conflict; and two people who left Paryang, seven and 20 years ago respectively, and have now returned. Gathering this information will help us build our understanding of human rights issues related to the GNPOC operational area.
- ✓ Each incident is assigned a number and a file is created to accumulate evidence about the incident as well as the progress of the investigation. We are attempting to

PUMP STATION 3 COMPENSATION – “EL MUNAWARA”

During the construction of the 1,540 kilometer GNPOC pipeline a number of communities were affected by the development activity.

- ✓ To facilitate the construction of Pump Station #3, the village of El Munawara, located about 200 kilometres south of Khartoum, was moved approximately two kilometres from its previous location to provide a safe distance between the villagers and the oil operations. Each of the 150 families with homes in the village were compensated in cash. The cash settlements ranged from \$290 (50,000 Sudanese Dinars) and \$870 (150,000 Sudanese Dinars). These funds were to compensate for the cost of moving their huts, latrines and fences to the new location.
- ✓ Compensation claims for villagers, who did not have to move their homes, but who had used the area around Pump Station #3 as grazing land are currently being

reviewed. The compensation review and distribution process was facilitated by representatives from the Sudanese Ministry of Energy and Mining on behalf of the Pipeline Compensation Committee.



► Pump station 3 at El Munawara.



“Talisman is a company that came (to Sudan) for their own benefit, but they know that helping others will help themselves. For example, if Talisman helps the communities along the pipeline, the local people will provide security for Talisman’s operations.”

Development partner, Khartoum



► **Pearson peacekeeping class.**

resolve or satisfactorily address documented violations within our sphere of influence, but to date, the program, in its start-up phase, has focused more upon the systematic documentation of alleged violations.

As this program matures, we expect that our ability and influence to satisfactorily address violations will increase. We also intend to improve the monitoring program through feedback and assistance from our stakeholders who can help in this area in order to give the process more independence and credibility.

Training

✓ Training has played a large part in our human rights efforts to date. It is important to go beyond high level statements of policy, we want to embed human rights awareness into our corporate culture. Educating employees responsible for operating by these Principles is a critical part of this process.

✓ A human rights awareness program was introduced to Talisman employees within Sudan (including those employed by GNPOC). In December 2000, 78 Talisman employees (national and expatriate) completed this

training. The program is structured around the Universal Declaration of Human Rights (UDHR) and focuses on how the UDHR relates to Talisman and its employees. The Principles are reviewed as well as the implications of these Principles for our employees. Talisman plans to expand this training program to include GNPOC employees in 2001.

✓ We also believe that more specialized human rights training is required for the GNPOC security staff and other employees involved in human rights monitoring. In August 2000, the four most senior security officials from the GNPOC security group, together with our new human rights Field Coordinator, completed “Free and Equal” Human Rights and Modern Peacekeeping training at the Lester B. Pearson Canadian International Peacekeeping Training Centre. This internationally recognized 10-day course aims to provide all participants with a broad understanding of international human rights laws and best field practices. The course also deals with human rights monitoring and associated investigative methods and interviewing skills. Talisman and GNPOC are planning to send additional security personnel from Sudan to this program in 2001.

LOOKING AHEAD TO 2001

- *Develop future human rights training programs*
- *Continue to improve human rights monitoring program to give the process more independence and credibility*
- *Work with GNPOC to formalize a security agreement*
- *Work with GNPOC to develop a system to document the compensation process in the concession*





The International Code of Ethics for Canadian Business	Sudan Operating Principles	Key Stakeholder Concerns
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Strive within our sphere of influence to ensure a fair share of benefits to stakeholders impacted by our activities.

Ensure meaningful and transparent consultation with all stakeholders and attempt to integrate our corporate activities with local communities as good corporate citizens.

Provide meaningful opportunities for technology, training and capacity building within the host nation.

We will promote that local communities receive long-term economic and social benefits from our operations.

We will create meaningful employment opportunities for local people within Talisman and GNPOC operations.

We will exercise our corporate influence to promote a fair distribution of the economic benefits of the GNPOC operations.

Community consultation.

Community development.

Community employment.

Distribution of benefits.

community participation



“Talisman should fund development through local government, rather than through Khartoum, to ensure full local consultation and the use of local resources in project implementation.”

Former politician from Bentiu

Talisman Objectives

GNPOC Objectives

General Advocacy Objectives

Develop a consultation process with appropriate members of local communities to explore opportunities for improvements in the areas of health services, education, water supply, and local infrastructure.

Give preference to local suppliers when purchasing goods and services.

Provide development grants and other resources for individual and NGO projects to improve community physical and social infrastructure, skills and capacity building.

Work with NGOs and Community Based Organizations (CBO) to support training and learning programs for local people.

Give priority to hiring local people for jobs for which they are qualified.

Annually review compensation packages of Sudanese employees to ensure they allow sustainable living standards and are competitive within Sudan.

Use our influence to encourage our GNPOC partners to give preference to local suppliers when purchasing goods and services.

Promote our community development philosophy with the objective that Talisman's and GNPOC community development programs complement each other.

Promote to our GNPOC partners the hiring of local people for jobs for which they are qualified.

Work with our GNPOC partners to achieve the following targets:

- ▶ 90% of GNPOC employees in skilled position are Sudanese.
- ▶ 100% of GNPOC employees in unskilled positions are Sudanese.

Promote to our GNPOC partners the hiring of labour contractors that hire local people.

Promote to our GNPOC partners the annual review of compensation packages of Sudanese employees to ensure they allow sustainable living standards and are competitive within Sudan.

Meet with officials from the Sudan Government to address the needs of Sudanese on an ongoing basis, including the promotion of the fair distribution of oil revenues from the GNPOC operations.

Meet with officials from the Canadian Government and International institutions to address the needs of Sudanese on an ongoing basis, including the promotion of the fair distribution of oil revenues from the GNPOC operations.



“Prior to Talisman’s involvement in some communities, they did not have proper schools. If you put up a proper school using bricks and a roof, you impact on the child psychologically. A proper building equals a proper school... which equals a motivation to learn.”

Development partner, Khartoum

Our participation initiatives are guided by the fundamental belief that local communities should receive long-term economic and social benefits as a result of Talisman and GNPOC operations. These benefits can come in many forms, including providing funding to projects that will improve the community, creating employment opportunities and giving preference to local suppliers.

✓ **COMMUNITY CONSULTATION**

We believe effective participation in a community requires knowing your neighbors. This is particularly important when establishing a community development program. As an oil company we do not presume to have expertise in this area and we have discovered that the best way to learn is to ask those who do. Building upon some modest successes we have taken steps to formalize a consultation process with appropriate members of local communities to explore opportunities for improvement in the areas of health, water, learning and capacity building.

✓ Over the past year Talisman initiated a formal consultation process with a number of stakeholders in Sudan to ensure our programs meet the needs of the local communities. Three independent needs assessments programs were completed during the year to identify the basic health, water and education infrastructure that existed in our operating areas along the pipeline and in the concession. Seventy-six village assessments along the pipeline and in the concession area were also completed by the Talisman community development team.

✓ Building on this foundation a draft community development policy was circulated to various stakeholder groups, including representatives of local Sudanese communities and development partners in Sudan and North America. This process was undertaken to coordinate our development efforts with those of GNPOC, the Sudanese Ministry of Energy and Mining and development partners. Over 80 meetings were held in Sudan to specifically discuss the policy and identify areas where we could provide the most assistance. This feedback was invaluable in the preparation of a comprehensive 2001 project inventory and community development policy which will provide needed services to the community without duplicating the activities of other organizations.

COMMUNITY DEVELOPMENT

✓ In Sudan, we provide funding for two separate community development programs, our own 100% funded Talisman program and a GNPOC program. The GNPOC program has two components: upstream (the concession area) and downstream (along the pipeline). The GNPOC community development programs are funded by each partner in the consortium in accordance with their ownership percentage. Thus, Talisman funding accounts for 25% of the total GNPOC budgets.

Funds paid by GNPOC for community development projects are reimbursable to the partners from oil production proceeds or pipeline tariff. Funds that are wholly paid by Talisman for the Talisman community development program are not reimbursable.



“We refused Talisman’s money. We believed that they were eager to buy a good conscience by bringing the large NGOs on board as development partners. To our knowledge, all of them refused Talisman’s money. We have seen their 2001 CD Strategy document, but theirs is ‘hot’ money and we don’t want to compromise our neutrality by accepting it.”

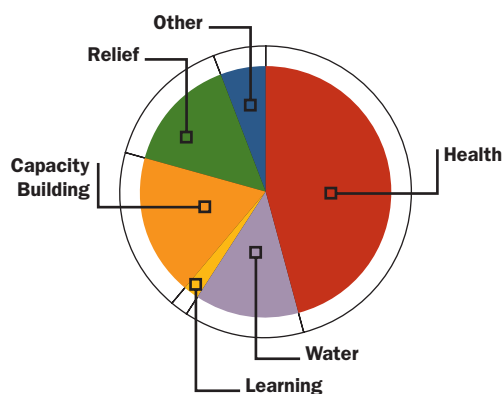
Director of a Nairobi-Based International NGO Operating in Southern Sudan

✓ Through the Talisman program we completed 15 independent community development projects for a total cost of \$1,000,000 in the past year. The individual expenditures ranged from \$1,000 donated to a university geology library to \$150,000 for emergency relief in Bentiu. We have approved a \$2,998,950 (\$2,000,000 US) community development work plan for 2001.

✓ GNPOC accounting systems have not been set up to specifically track community development project expenditures however, records indicate that the upstream program spent \$1,064,147 on nine projects and the downstream program spent \$812,134 on 16 projects in 2000. It has not been possible to substantiate these cost figures. To address this situation GNPOC plans to improve its accounting systems in this area in 2001.

✓ To manage Talisman initiatives we established a core team of three dedicated community development employees, two Canadian and one Sudanese from the concession area. These employees design, implement and administer programs to improve the quality of life in the communities in which we operate. Early in 2001 this group will expand to eight employees, including three doctors, to implement Talisman’s expanded 2001 community development workplan.

✓ **Talisman Community Development Spending**



✓ Talisman recognizes the challenges faced by international organizations working in Sudan. These challenges include threats of violence to their colleagues in southern Sudan in reprisal for working with oil companies. Given these threats, few groups are currently able to work with Talisman. We anticipate, however, that a portion of our 2001 community development programming will be implemented with the assistance of some development partners.

The Talisman 2001 community development workplan distributes 65% of the programming funds to the concession area and 35% to communities along the pipeline. Special attention is given to strengthen the capacity of Sudanese communities and organizations to independently design, deliver and sustain development projects in the future.



“We have seen some benefits from the oil development – schools, a dispensary and the road. In the past we used to travel on foot for two days to Heglig – now you can go in half an hour. They should not stop here but continue the road as far as the lake.”

Citizen of Paryang



For an overview of the location of the concession within Sudan please see page 3.

Major Community Development Projects in the Concession

Health		Water		Learning
Paryang Clinic	T	Kummagon well	T	Kailak Lake School G
Rubkona Clinic	T	Debap water storage	T	Debap School G
Bentiu Relief	T G	Two Rubkona wells	G	Kailak Pit School G
Debap Clinic	G	Kailak Lake well	G	Abu Likri School G
Kailak Pit Clinic	T G	Kailak animal watering ponds	G	
Mayom Clinic	G	Bamboo animal watering pond	G	
Heglig Hospital	T G	Two Paryang wells	G	

Key: T Talisman G GNPOC



“Talisman is definitely leading GNPOC through the development process. They are encouraging us to stick to a long-term development strategy, and to avoid emergency relief. Together we have realized that we need to shift towards capacity building.”

GNPOC Manager

✓ Wherever possible we try to coordinate the activities of the Talisman and GNPOC programs to ensure that respective projects complement one another. For example, in the case of the Debap and Kailak Pit Clinics, the GNPOC program funded the capital portion of the project and the Talisman program funded the operating

✓ expenses. Representatives from development agencies, the Ministry of Energy and Mining, Unity State and local villages were consulted in the coordination of the 2001 Talisman and GNPOC programs to maximize the benefits of the programming to the communities impacted by our operations.

HEGLIG HOSPITAL

The GNPOC funded hospital at Heglig offers a variety of medical services to people in the general area. Seeing an average of 260 patients per day in the 24 hour emergency department, the hospital offers a wide variety of health services including minor operations, dental care, x-rays, vaccinations and obstetrics. Physicians, including cardiologists and pediatricians visit the hospital on two-week rotations to provide more specialized care.

As the reputation of the hospital grows, people are traveling increasing distances to access its medical treatment. “This is the only facility in Sudan that provides all services, including operations, meals and medications free of charge to patients” says Dr. Saif, Hospital Administrator. We have recently had patients travel from as far away as Leer, Adok and Mayom to come to the hospital and we expect that trend to continue.” To deal with this increasing demand, the hospital is coordinating out-patient services with neighboring Talisman and GNPOC clinics and offering health education classes to reduce the occurrence of preventable environmental diseases.

Issues surrounding the hospital have been raised by some stakeholders who have expressed the belief that the hospital is only for GNPOC employees or military personnel. It has also been said that people seeking

treatment may be discriminated against for religious or tribal reasons. To address these concerns the hospital implemented a basic record keeping system in 2000 to track outpatient usage. These figures indicate that 76% of the outpatients receiving medical attention in the past year were nomads, 16% were in the Sudanese military, 6% were GNPOC subcontractors and 2% were GNPOC employees. Talisman will continue to monitor the hospital and identify ways in which the level of service can be improved to better meet the needs of the area.



► People waiting for treatment at Heglig Hospital.



“The company is not employing local labourers – we want jobs from Talisman, not food.”

Village leader, Bentiu

COMMUNITY EMPLOYMENT

- ✓ Talisman and GNPOC also participate in the community by providing employment opportunities. Talisman opened its representative office in Khartoum in October 1998. As of December 31, 2000 the office employed 110 staff, 100 of whom were National employees (citizens of Sudan). GNPOC employed 935 people at December 31, 2000. At December 31, 2000, Sudanese nationals held 72% of all skilled and unskilled positions at GNPOC.
- ✓ Talisman commissioned two training needs assessments in the concession area this year that indicated that local community populations lack the basic language and math skills necessary for successful employment at GNPOC.

Addressing these issues is a significant challenge. One step is to work with various groups who specialize in English literacy and workplace education and training. Supporting training programs will build the foundation for future progress.

A second step to address these issues has been the use of manual labour from the concession area, instead of heavy machinery, to provide jobs and income opportunities for local people. Clearing of trees and brush around the perimeter of installation sites and power line monitoring are two examples of these initiatives.
- ✓ We have made efforts to increase employment of local people (i.e. people from the immediate concession area) at both Talisman and GNPOC. Talisman established a hiring policy in December 2000 which promotes the hiring of local people. We have also been very active in advocating the hiring of local people within the consortium and have formally corresponded with both GNPOC and the Sudan Ministry of Energy and Mining on this issue. We have made efforts to address GNPOC recruitment specifications, such as maximum age levels, that can be a barrier to entry for many applicants. We have also made arrangements to assist disadvantaged applicants in preparing required documents such as resumes for a current GNPOC recruitment program. We will be looking for other opportunities in the future.

Despite these efforts, increasing employment of local community members will be difficult. Education and, to a lesser extent, cultural issues significantly impact the opportunities for local people to work for GNPOC.
- ✓ A more formal obligation regarding the employment of Sudanese citizens is the Sudanization program. Talisman and GNPOC are contractually obligated to the Government of Sudan to ensure that 90% of GNPOC employees in skilled positions will be Sudanese nationals by 2007. As an interim target, 60% of skilled positions must be held by Sudanese nationals by 2002.
- ✓ We have seconded human resources professionals to GNPOC to develop a formal Sudanization program to achieve these targets. The comprehensive process includes the identification of abilities and skillsets

required for each position in turn as it is targeted for Sudanization, the recruitment of suitable Sudanese candidates and the provision of ongoing training. Once a position has been 'Sudanized' it can only be filled by a Sudanese national. Of the 29 skilled positions that were Sudanized during 2000, 25 had been filled by Sudanese nationals at year end. Four positions remained vacant.

- ✓ Currently 42% of skilled positions at GNPOC have been Sudanized. This program will continue to expand in an effort to achieve the goal of 60% Sudanization in skilled positions for 2002.
- ✓ Direct hiring is only one aspect of the employment opportunities generated by the GNPOC operation. Secondary hiring occurs through the use of labour contractors. Through our advocacy efforts within

GNPOC, a provision which promotes the use of local labour has been added to GNPOC invitation to bid documents and will be included in all future contracts and service agreements. More than 500 people were employed by GNPOC contractors in 2000.

- ✓ We also give preference to local suppliers in our draft procurement policy and procedures to generate employment opportunities. The policy states that "Talisman (Greater Nile) B.V., where appropriate, will give preference to qualified local suppliers when purchasing goods and services, and will use its corporate influence to promote this objective within the Greater Nile Petroleum Operating Company". This policy supplements the contractual obligations of the consortium to the Government of Sudan which also requires that GNPOC give preference to local suppliers.

ST JOSEPH'S VOCATIONAL TRAINING CENTRE

St. Joseph's Vocational Training Centre in Khartoum provides free training to over 1,000 young men each year in nine trades including welding, automotive mechanics, auto body repair and electronics. The goal of this centre is to build a better future for youth by providing graduates with the necessary knowledge and skills to support industrialization and development in Sudan.

Talisman's fleet of 34 vehicles is maintained by St. Joseph's automobile workshop. Seeing cars six days a week, the students have the opportunity to perform services such as oil and filter changes, electrical system checks and wheel alignments. The fees charged for these services supplement funding provided by the Catholic Church and allow the school to continue to maintain the same high level of instruction it has been providing to the community for over 15 years.

Father Richard Sagdak, headmaster of the school, believes that teaching students automotive mechanics also offers improved career opportunities.

"Here you have to maintain what you have, or you have nothing. Servicing the Talisman cars gives the boys a chance to become familiar with the newest automotive technology and develop desirable skills to help them get jobs after they graduate."



▶ Father Richard in the electronics class.



“I would like to know:

- ***Each companies’ share according to the agreement the consortium has with the government***
- ***The government of Sudan’s share***
- ***The amount that is spent in the oil areas for health, education and housing***
- ***The amount that is spent annually in the south of Sudan generally.”***

Southern Sudanese opinion leader, Khartoum



▶ **Environmental health education at Rubkona Clinic.**

DISTRIBUTION OF BENEFITS

We believe that oil development is benefiting the people of Sudan. However, other organizations have expressed deep concern that oil revenues received by the Government of Sudan are contributing to the continuation of the ongoing war. We share this concern, however, the expenditure by a sovereign government of its revenues is an issue that the Company has limited ability to address. We strongly believe that oil revenues should not be used for such purposes and have expressed our concern to the Government of Sudan and others. We also advocate that the Government of Sudan establish a more transparent process of accounting for its expenditure of oil revenues in Sudan.

Many organizations concerned with the issue of resource extraction revenues contributing to conflict have advocated to companies such as Talisman that companies should

disclose the revenues derived by a host government as a result of such companies’ involvement in the host country. We understand this concern and are prepared to provide such information with respect to Sudan.

- ✓ Talisman and its partners share oil production volumes with the Government of Sudan through what is commonly known as a production sharing agreement. Each barrel of oil produced is “shared” between the oil companies and the Government of Sudan according to formulas based upon capital and operating cost recovery, production levels and other factors. Each company and the Government of Sudan are “entitled” to oil production volumes based upon the above-described sharing formulas and individually sell their oil entitlement volumes into the world oil market.
- ✓ As disclosed in Talisman’s 2000 Annual Report, the Government of Sudan’s entitlement from Talisman’s share of production in the year 2000 was valued by Talisman (on an accrued basis) to be \$306,100,000. For more information, please refer to notes 13 and 15 in the consolidated financial statements of Talisman’s 2000 Annual Report⁶.
- ✓ An additional source of publicly available information regarding the status of Sudan’s finances and the financial impact of oil production is the International Monetary Fund Staff Country Report dated June 2000. This report was completed with the cooperation of the Government of Sudan and provides an extensive analysis of Sudan’s finances (including a breakdown



“Talisman and GNPOC projects need to be finished – we need a pipe connected to the water tower and we need latrines at the clinic.”

Citizen of Paryang

of spending in various sectors of the economy). It also provides projections of the Government of Sudan’s share of oil production from 1999 onwards.

- ✓ The IMF report can be accessed through the worldwide web⁷. The next publicly available IMF Staff Report is expected in summer 2001.
- ✓ Within this context, the senior management of Talisman has been advocating to the Government of Sudan that the benefits of oil must be shared amongst all the people of Sudan, and that Sudan’s newly found oil wealth and the potential expansion of Sudan’s oil industry should be used as a catalyst for peace. This message has been conveyed in face-to-face discussions and in writing with key officials including the President, Minister of Foreign Affairs and the Minister of Energy.
- ✓ Beyond dialogue with the Government of Sudan, this issue has also been raised in meetings with the Government of Canada, resident European diplomats to Sudan and an international financial institution involved in Sudan’s finances. Talisman has offered its assistance (in any way deemed appropriate) towards establishing a process for transparent reporting of oil revenue expenditures to the Government of Sudan, the Government of Canada and to the international financial institution referred to above.

In addition, Jim Buckee has been quoted in newspapers in Sudan and on television within Sudan and neighbouring countries stating that oil revenues should be used for development in southern Sudan.

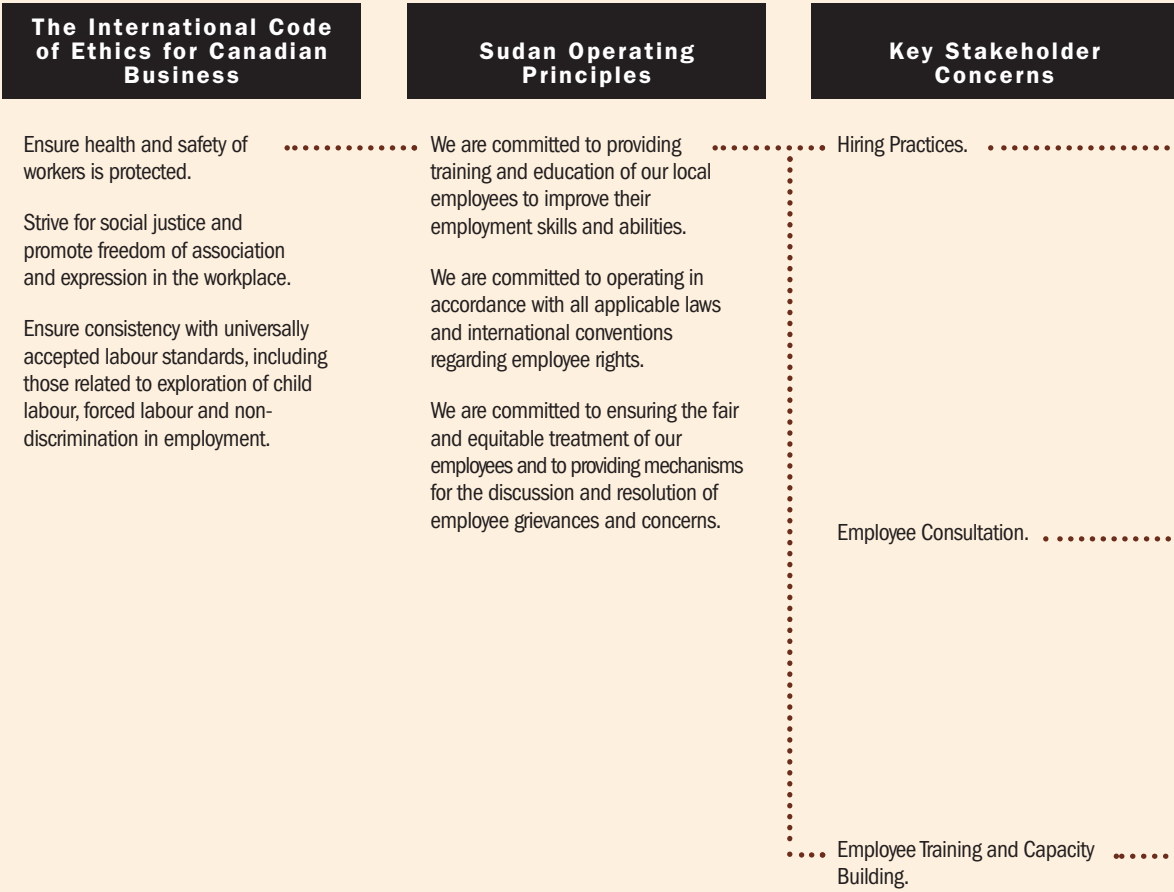


• **Water supply at Paryang.**

LOOKING AHEAD TO 2001

- Fund a \$2,998,950 (\$2,000,000 US) Talisman community development program
- Establish a process for periodically evaluating compensation packages for sustainability and competitiveness
- Continue to advocate for the fair distribution of revenues and transparent reporting
- Work with GNPOC to improve community development accounting systems
- Promote establishment of a GNPOC procurement procedure which gives preference to local suppliers
- Promote the establishment of a GNPOC hiring policy promoting employment of local people





employee rights



“I wanted to come and work for Talisman, they pay well and treat their drivers fairly.”

A Talisman driver, Khartoum

Talisman Objectives

GNPOC Objectives

.....
 Regularly monitor employee information and hiring practices to ensure that all candidates are treated equally and not discriminated against on the basis of specific ethnic or religious grounds.

.....
 Avoid using contractors and suppliers known or believed to use child or forced labourers.

.....
 Foster an environment that encourages employees to disclose information on concerns with respect to compliance with these Principles and Objectives.

.....
 Monitor and review the training and education needs of our local employees and provide appropriate training programs.

.....
 Use our influence to encourage our GNPOC partners to regularly monitor employee information and hiring practices to ensure that all candidates are treated equally and not discriminated against on the basis of specific ethnic or religious grounds.

.....
 Use our influence to encourage our GNPOC partners to avoid using contractors and suppliers known or believed to use child or forced labourers.

.....
 Encourage our GNPOC partners to regularly consult with employees to identify specific needs and concerns.

.....
 Encourage the development of employment policies and practices to our GNPOC partners that accommodate the cultural, spiritual, and social needs of the local employees.

.....
 Encourage our GNPOC partners to review the training and education needs of our local employees and provide appropriate training programs.



“There’s a lot of manpower coming from the north to work in Heglig and on the infrastructure projects so local people are not benefiting from the oil through local employment. They should open an office for jobs in Bentiu and at Heglig.”

Former politician from Bentiu

✓ In 2000, both Talisman and GNPOC developed formal training policies for local workers. These training policies support individual rights by encouraging personal and professional development. Talisman monitors the training and education needs of local employees in order to provide appropriate programs. GNPOC also conducted a training needs analysis and implemented an educational assistance policy for Sudanese nationals. Over the last year 1,159 participants received training in 67 different programs. Many employees received training

on more than one course. A \$5,997,901 (\$4,000,000 US) GNPOC training budget has been approved for 2001.

✓ Several policies were adopted that formalized existing practice with respect to employee rights in 2000. Talisman adopted a formal policy that states the Company will ensure that all candidates will be treated equally and will not be discriminated against on the basis of specific ethnic or religious grounds. To eliminate the potential for unlawful discrimination in hiring decisions

TALISMAN’S NATIONAL EMPLOYEE COMPLEX

Talisman’s National employee complex is a unique facility in Khartoum. The complex includes training rooms, a drivers’ lounge, dining hall, computer and electronics workshops, as well as office space in one building. This has created a combined working and learning environment for many of the 100 Sudanese staff employed by our representative office. Administration and maintenance of Talisman housing is also coordinated from this building.

It is very difficult to find appropriate office and working space in Khartoum that provides both the level of comfort and modern amenities taken for granted in Canada. To address this problem Talisman leased and completely renovated the interior of a three-story building to meet its needs.

“You can see and feel a contrast in this place” explains Richard Rybiak, Manager, Human Resources and Administration at Talisman (Greater Nile) B.V. “Attention to little things, like installing a filtration system to improve water quality and maintaining a separate generator to provide an alternative power supply, has made a big difference.”

Training is the focal point of the complex. Employees are strongly encouraged to upgrade their skills in courses ranging from defensive driving, to first aid and English proficiency, and are paid overtime for their participation. Classes are offered six nights a week. This training helps Talisman to retain and develop a proficient, professional workforce.



► **Electronics workshop.**



“I know about the employee grievance policy but I am not sure how it works.”

GNPOC employee, Heglig



▶ **English proficiency training for Talisman National employees.**

LOOKING AHEAD TO 2001

- ▶ *Continue training programs for Sudanese Nationals*
- ▶ *Provide cross cultural business skills training for GNPOC employees*
- ▶ *Work with GNPOC to develop a training policy and program regarding National employees*
- ▶ *Work with GNPOC to develop a corporate policy to respect the cultural, spiritual and social needs of National employees*

and ensure that employees are technically qualified for the position to which they are applying, hiring and recruitment undertaken by Talisman is based on a competency-based model, with the exception of specialist positions.

- ✓ A formal procurement procedure regarding screening of potential contractors and suppliers is being introduced in Talisman in 2001 that will involve investigating suppliers to determine whether or not they meet acceptable human rights standards, such as non-use of child labour. GNPOC is already developing a database of contractors and suppliers incorporating screening criteria to determine whether appropriate labour standards are used in the workplace.

- ✓ A grievance and disclosure policy and procedure has also been drafted by Talisman and will be introduced in 2001. This policy states that the Company is committed to ensuring the fair and equitable treatment of its employees and to providing a mechanism for the discussion and resolution of employee grievances and concerns. GNPOC implemented a similar employee

consultation and grievance policy this year. The aim of this policy is “to help its employees to become more productive, and to observe the rules and regulations established for the safety and efficiency of its operations and for protecting the interests of the Company and its employees.” Procedures outlined in the policy are designed to ensure confidentiality and facilitate the investigation of concerns. Appropriate corrective and disciplinary actions are also identified.

- ✓ Talisman also adopted a formal policy respecting the cultural, spiritual and social needs of local employees. This policy includes a provision that recognizes both Muslim and Christian holidays.





ethical business conduct



“Talisman’s first obligation is to be a good corporate citizen and conduct its business in an ethical manner. So far, the company appears to have done its best to be a positive presence in Sudan.”

Talisman shareholder, Canada

Talisman Objectives

GNPOC Objectives

Monitor our business activities to ensure conformance with our Policy on Business Conduct.

Promote our corporate standards regarding ethical business conduct to our GNPOC partners.

Talisman's office in Khartoum.



Talisman is committed to carrying out all business activities in accordance with its Policy on Business Conduct, the Sudan Operating Principles and the International Code of Ethics for Canadian Business.

- ✓ We regularly monitor our business activities to test conformance with these policies and have implemented an Ethical Business Conduct Management System. This process requires that Talisman employees annually complete a Certificate of Compliance regarding the Policy on Business Conduct and report any suspected transgressions of this policy, which are then investigated by the internal audit department. In Sudan all expatriate employees who have key positions of responsibility

(representing 76% of all expatriates in Sudan) signed Certificates of Compliance for 2000. This program has also been reviewed with Sudanese National employees who have key positions of responsibility. They have also completed Certificates of Compliance in early 2001.

- ✓ In February 2000, Talisman provided training for expatriate employees in Sudan to facilitate the integration of the International Code of Ethics for Canadian Business in all policies and practices.
- ✓ We have also actively promoted corporate standards regarding ethical business conduct within GNPOC. In September 2000, GNPOC formally adopted a Code of Ethics for the consortium that deals with a wide range of issues including human rights and community participation. Within this code, GNPOC has undertaken to adopt a specific business conduct policy related to issues such as bribery and corruption.

LOOKING AHEAD TO 2001

- ▶ *Work with GNPOC to develop operating principles*
- ▶ *Work with GNPOC to develop a business conduct policy*



The International Code of Ethics for Canadian Business

Ensure our activities are consistent with sound environmental management and conservation practices.

Sudan Operating Principles

- We are committed to our Health, Safety and Environment Policy.
- We will promote local community health benefits and environmental protection.

Key Stakeholder Concerns

..... Environmental impacts

health, safety and environment



“What comes to mind is how the drilling sites are managed. Are toxic materials being dealt with properly? The oil pipeline itself. You’ve heard the stories about people in Nigeria trying to get petroleum products by drilling holes in the pipeline and causing terrible accidents. Are there adequate measures in place to prevent that sort of thing?”

Talisman shareholder, Canada

Talisman Objectives

GNPOC Objectives



▶ **Heglig HSE supervisor demonstrates proper safety technique.**

..... Conduct our operations in accordance with our Health, Safety and Environment Policy.

..... Promote our environmental standards to our GNPOC partners.

Occupational health, workplace and public safety, and environment protection are critical issues for a responsible oil and gas company. We are committed to maintaining the standards articulated in our corporate Health, Safety and Environment Policy in every aspect of our operations. Talisman's Health, Safety and Environment Policy was formally adopted by Talisman (Greater Nile) B.V. in December 2000, and we are committed to promoting these standards within GNPOC. Issues of environmental protection and health and safety are primarily the responsibility of GNPOC as the operator of the oil and gas project.

The GNPOC facilities have been designed to international standards, incorporating plant emergency shutdown systems and block valves for isolating specific sections of the pipeline (including block valves on either side of the Nile and Atbara River crossings). Other precautions have also been taken, including the placement of engineered berms around oil and fuel storage tanks, to prevent accidental spillage to the natural environment.

Waste management improvements were initiated at Heglig, including collection and centralized containment of well workover fluids and spilled oil, and proper incineration of biomedical wastes from the Heglig Hospital. Preventive maintenance programs have been established and safety meetings and planned inspections are held regularly by the Production Department at Heglig and at the Marine Terminal. In addition, the Heglig Training Center delivered in excess of 600 person days of safety and loss control training to GNPOC employees in 2000.

✓ In order to establish a baseline of current standards, Talisman conducted an independent review of the GNPOC health, safety, and environmental (HSE) management system in December 2000. Fifty-five individuals throughout the GNPOC organization were interviewed, critical records were reviewed, and site inspections were completed in Khartoum, Heglig, Unity, two of the pipeline pump stations and the marine terminal. The scope of the review included management processes as well as technical programs, controls, and competencies associated with an effective oil and gas HSE program.

✓ Management processes reviewed included communication of written policy and standards, annual objective-setting, workplans, and budgets. Performance reporting, crisis communication and response capability were also analyzed. Technical programs ranging from training, aircraft operations and maintenance and potable water supply to emergency response plans, pipeline leak detection and isolation and spill response capability were also covered in the scope of this review.

✓ The review provided a baseline understanding of GNPOC's HSE management system and identified that many standards and procedures of the oil project are still informal and undocumented. The review also discovered a number of areas where specific improvements can be made and these findings will be discussed with GNPOC management.

LOOKING AHEAD

- ▶ *Release of final audit report to GNPOC management*
- ▶ *Development of an implementation schedule to address needed changes in procedures and training programs within GNPOC*



OIL SPILL CONTAINMENT TRAINING

In May, 2000 training sessions in oil spill training and contingency planning were held at both the Atbara River pipeline crossing and the Red Sea marine terminal. Employees from pump stations one through six participated in both classroom and practical sessions. These sessions developed the skills needed to respond quickly and effectively to a water-based oil spill. The oil spill recovery exercise was a comprehensive process that included deploying and anchoring booms, deploying a skimmer and testing recovered water. These exercises will be conducted annually by GNPOC.

“The enthusiasm and interest displayed by the employees was contagious” stated Phil Langille, an Environmental Specialist with Talisman Energy Inc. “They wanted to learn but we were really starting from scratch as to why this type of program was important. The use of oil containment booms and the environmental impact of oil in water is all very new to the GNPOC staff.”

By sharing knowledge and presenting information on how Talisman operates in other parts of the world GNPOC employees are exposed to new ideas. Being able to provide an insight and expertise into environmental matters is just one way that Talisman is introducing international standards and principles to the Sudan project.



▶ **Deploying the boom.**



“We don’t know much about what Talisman is doing here. We would like to learn more.”

Sudanese Businessman, Khartoum

Stakeholders provide valuable information and they are increasingly influencing decisions in many organizations, including business. To deal effectively with financial, social and environmental issues in Sudan, Talisman must engage in dialogue with groups affected by its operations, as well as those in society committed to improving standards and economic well being. We recognize the value of strong relationships with these people and groups and that it is our responsibility to foster positive relationships in every area we operate in. To achieve this goal we are committed to constructive and transparent information sharing through stakeholder engagement programs. The preparation of a corporate social responsibility report is one example of this commitment.

✓ We are developing a comprehensive stakeholder engagement process that will create opportunities for structured and constructive dialogue. This program identifies issues of concern, rationale for stakeholder inclusion and a timeframe for engagement. Using this framework we are structuring consultation processes in Sudan and North America to allow interested parties to communicate their needs and concerns to us as well as inform them of our activities on an ongoing basis.

✓ In planning the formal stakeholder engagement process we decided to employ a third party to perform interviews in order to encourage stakeholders to speak openly in recognition of the fact that some individuals and groups would not participate with us directly. We engaged the PricewaterhouseCoopers International Survey Unit to conduct a series of one-to-one interviews with 18 opinion leaders across North America. The interviewees included significant shareholders, May 2000 shareholder resolution sponsors, government officials, non-governmental organizations and academics. Interview topics included key areas of concern regarding Talisman’s operation in Sudan as well as the preferred content and presentation of corporate social responsibility information in this report. In each case the interviewee decided whether their views could be shared with Talisman and whether their comments could be published in this report.

We will conduct follow up interviews with the participants after the release of this report.

✓ We have a number of new initiatives to improve the way we communicate with our stakeholders. We recently upgraded our website www.talisman-energy.com and will continue to use the Internet as a tool to provide timely and readily accessible information on our corporate social responsibility initiatives. A corporate social responsibility newsletter, HOPE, has been created to provide updates on our participation initiatives in Sudan. Three editions have been printed to date.



“We do not want to be associated with Talisman because, among other reasons, the SPLA has issued specific threats against anyone assisting with the production of oil in Sudan. This was a problem for many agencies when Talisman falsely reported a relationship with us.”

International NGO based in Khartoum

The objective of these stakeholder engagement initiatives is to generate discussion regarding issues surrounding our operations in Sudan. We have attempted to provide our stakeholders with accurate and relevant information about Talisman. Stakeholder engagement also provides us with the opportunity to listen to all opinions and concerns that may be expressed. We will continue to engage with and learn from our stakeholders so we can address our common concerns. One way we would like to do this is to get your feedback on this report so we can make it more useful to you in future years. To make this easier for you we have included a comment card in the back of this report.

LOOKING AHEAD TO 2001

- ▶ *Continue all forms of stakeholder engagement to ensure all viewpoints are heard*
- ▶ *Conduct Sudan stakeholder open houses*
- ▶ *Translate and distribute corporate social responsibility information to Arabic, Dinka and Nuer stakeholders*
- ▶ *Complete formal follow-up interviews with North American stakeholders*

BENTIU EMERGENCY

Throughout the summer of 2000, tens of thousands of people fled to Bentiu on the southern edge of the GNPOC concession to escape inter-factional fighting that was occurring in areas outside of the GNPOC concession. To support internally displaced people during the crisis, Talisman and GNPOC provided medical supplies and staff, veterinary supplies, tents, mosquito netting and logistical support as part of a coordinated relief effort.

During the emergency, which lasted approximately eight weeks, we issued two community development updates on the Talisman website to provide our stakeholders with information on our activities in Sudan. Unfortunately these statements were poorly worded and did not clearly identify the roles and relationships between the many groups participating in relief efforts. In particular, specific references were made to a number of humanitarian and development agencies who also provided assistance during the Bentiu emergency through the Government of Sudan’s Emergency Committee. These references gave many readers the false impression that these organizations were working directly with Talisman to provide aid. This

was not the case, nor was it our intention to misrepresent the situation in any way.

Our attempt to acknowledge the efforts of groups providing much needed assistance in Bentiu was flawed because we failed to recognize the impact these statements might have on the groups named. We put them in an untenable situation and we apologize for any offence that may have been given. We will make every effort to avoid such miscommunications in the future.



▶ **Talisman emergency medical clinic.**



“Oil at the moment is a disincentive for peace, where we believe it could be an incentive if the revenues were shared to develop the South.”

Director of a Nairobi-Based International NGO Operating in Southern Sudan

This corporate social responsibility report has taken a unique approach to sustainability reporting. By focusing solely on our Sudan operations, due to both the nature of the shareholders resolution which established the parameters for this report and areas of interest identified by stakeholders, we have directed our energies mainly on one of the three elements of the “triple bottom line,”⁸ social reporting.

In our first year the challenge was to create a framework (the Sudan Operating Principles) to implement the principles of the International Code of Ethics for Canadian Business within our Sudan operations. We intend to expand the reporting process in future years, utilizing the benchmarks and framework created in 2000 to present more quantifiable measurements. The recommendations provided by PricewaterhouseCoopers through their verification work will provide initial direction on how to improve both our program and our reporting process in this regard. We will also engage with our stakeholders to find out what they would like us to report on and how, and work with NGO’s and other

organizations to explore other methods and approaches to verification.

We will also work more closely with GNPOC in 2001 to incorporate a number of these policies within the consortium. We have been encouraged by the support we have received from our partners and the Government of Sudan to date on these initiatives and expect that this will continue.

We are developing a more extensive risk analysis and evaluation process for new business opportunities that places more emphasis on human rights and stakeholder issues. We have also committed to continuing to work towards expanding our consultation process in an effort to develop relationships and build trust with the many people and groups interested in our operations in the coming year.

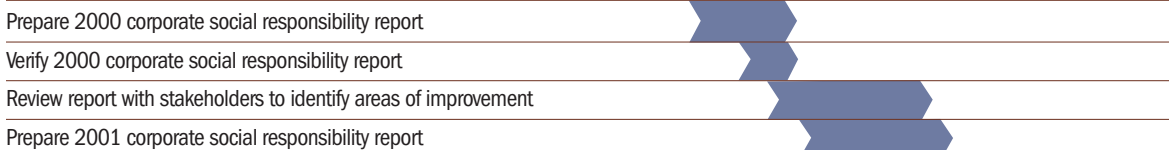
We will also continue to seek advice from a wide range of groups in an attempt to listen and respond to the needs and opinions expressed by our stakeholders.



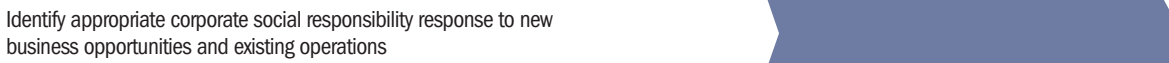
SUDAN OPERATING PRINCIPLES



REPORTING



RISK EVALUATION



⁸ THE TRIPLE BOTTOM LINE REPRESENTS SOCIETY, THE ECONOMY AND THE ENVIRONMENT.



“If Talisman were to leave, would the oil stop flowing? If the oil were to stop flowing, would this force the government to change, would it bring down the government? Oil exploration will not stop if Talisman left.”

Sudanese academic, Khartoum

In consultation with numerous individuals and organizations, we have identified areas where we need to significantly improve the existing corporate social responsibility program in Sudan. These include: the formalization of a security policy for GNPOC, continued improvement of the human rights monitoring program, funding of an expanded community development program, the development of a GNPOC hiring policy to promote the employment of local people, improving HSE management systems and the continuation of stakeholder engagement initiatives to ensure all viewpoints regarding our investment in Sudan are heard. We have also identified longer term objectives that will guide the progress of Talisman’s overall corporate social responsibility program and focus on developing performance indicators and improving the Sudan Operating Principles.

By turning a spotlight on our Sudan operations we have been forced to address a number of specific and serious challenges that can become lost in a wider discussion of our corporate activities. Issues, such as the definition of the legitimacy and appropriateness of corporate political influence and a sovereign government’s use of revenues, that would not be raised in Canada, are often raised with respect to operations in developing countries. How should we balance these specific concerns with the desire to maintain a universal standard of conduct in each country where we operate? Or does each developing country pose a unique context within which corporate social responsibility must be evaluated on a case-by-case basis? We are grappling with these issues and would welcome your comments.

There is a legitimate debate regarding the role of development in areas of civil unrest. We believe that our involvement in Sudan is a positive one and that our actions are in compliance with the International Code of Ethics for Canadian Business. We also believe that we can help the people of Sudan by providing employment and skills training, enhancing local infrastructure, supporting further economic development, and by doing what we can to support peace and stability in the region. We recognize that others have differing opinions.

To properly assess these complex issues and make conclusions, we feel one must have an accurate picture of what the Company has done and what it is trying to do in Sudan. We hope that by having the assertions in this report independently verified you will feel confident that the information contained in these pages is accurate and can judge for yourself whether or not our actions in Sudan are in compliance with the International Code of Ethics for Canadian Business.

CORPORATE INFORMATION

Board of Directors

Peter N.T. Widdrington^{1,3,5}
London, Ontario
Chairman, Talisman Energy Inc.

Robert A. Bandeen, O.C.²
Toronto, Ontario
Chairman and President,
Cluny Corporation

James W. Buckee^{1,4,6}
Calgary, Alberta
President and Chief Executive
Officer, Talisman Energy Inc.

Al L. Flood, C.M.^{1,3}
Thornhill, Ontario
Corporate Director

Paul J. Hoenmans^{2,4}
Aspen, Colorado
Corporate Director

Dale G. Parker^{2,5}
Vancouver, British Columbia
Public Administration and
Financial Institution Advisor

David E. Powell^{1,3,5,6}
Calgary, Alberta
Chairman of the Board,
Petroleum Industry Training Service

Roland Priddle^{2,4}
Saanich, British Columbia
Consultant

Stella M. Thompson^{3,4,5,6}
Calgary, Alberta
Principal, Governance West Inc.
President, Stellar Energy Ltd.

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

Executive

James W. Buckee
President and Chief Executive
Officer

Edward W. Bogle
Vice-President, Exploration

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

Joseph E. Horler
Vice-President, Marketing

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

Robert W. Mitchell
Vice-President, Canadian
Operations

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

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

Executive Office

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Website: www.talisman-energy.com

Annual Meeting

The Annual Meeting of Shareholders of Talisman Energy Inc. will be held at 11:00 a.m. on Tuesday, May 1, 2001 in the Imperial Ballroom of the Hyatt Regency Calgary Hotel, 700 Centre Street South, Calgary, Alberta.





TALISMAN
ENERGY

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