



Economics & Energy

Fuel Forward: Propelling Transportation with Natural Gas

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Advisories



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Production Volumes

Unless otherwise stated, production volumes are stated on a Company interest basis prior to the deduction of royalties and similar payments. In the US, net production volumes are reported after the deduction of these amounts. US readers may refer to the table headed “Continuity of Net Proved Reserves” in Talisman’s most recent Annual Information Form for a statement of Talisman’s net production volumes.

BOE Conversion

Throughout this presentation, barrels of oil equivalent (boe) are calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil (bbl). This presentation also includes references to mcf equivalents (mcfes) which are calculated at a conversion rate of one barrel of oil to six thousand cubic feet of gas. Boes and Mcfes may be misleading, particularly if used in isolation. A boe conversion ratio of 6mcf:1bbl and an mcf conversion ratio of 1bbl:6mcf are based on an energy equivalence conversion method primarily applicable at the burner tip and do not represent a value equivalency at the well head.



Key points summary

Global economy

Economic growth followed the path we expected last year: slow but still decent expansion with more of the same to come

Going forward, global growth remains hampered by debt issues in the near-term and weakening demographics in the long-term

Crude oil

Prices remain elevated due to high demand and geopolitical risks that enable OPEC to manage prices

Incentives for higher fuel efficiency, unconventional oil and investments into alternatives are strong with prices sustained at current levels, which adds long-run uncertainty

North American unconventional resources are estimated at roughly twice the size of the global conventional resource base; the production outlook hinges on economics

Natural gas

Uncertainties remain weighted to the downside for near-term prices

A supply response is on the horizon but must go further and longer to have a large impact

The long-term structural situation reflects an abundance of low-cost shale gas

Talisman Energy positioning

Sustainable cash flow and production growth

Focus on liquids and liquids-rich gas

Continuous improvement of the shale portfolio, production costs and expertise

Global landed LNG prices – March 2012



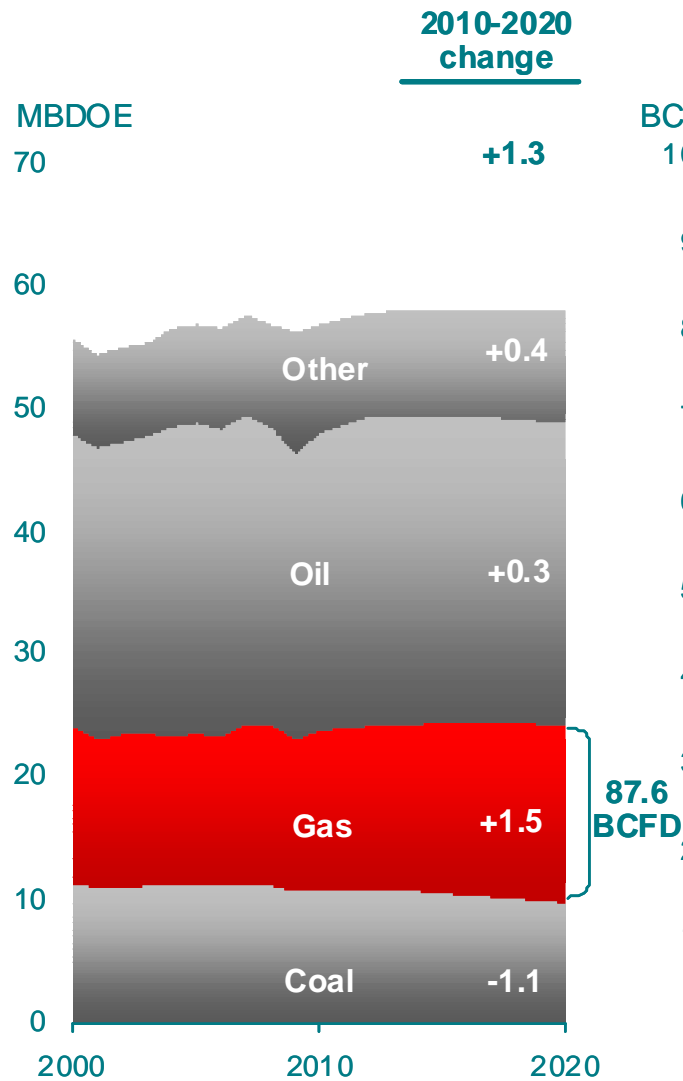
Source: U.S. Federal Energy Regulatory Commission

An unprecedented regional price divergence creates a huge near-term pull for LNG toward Asia

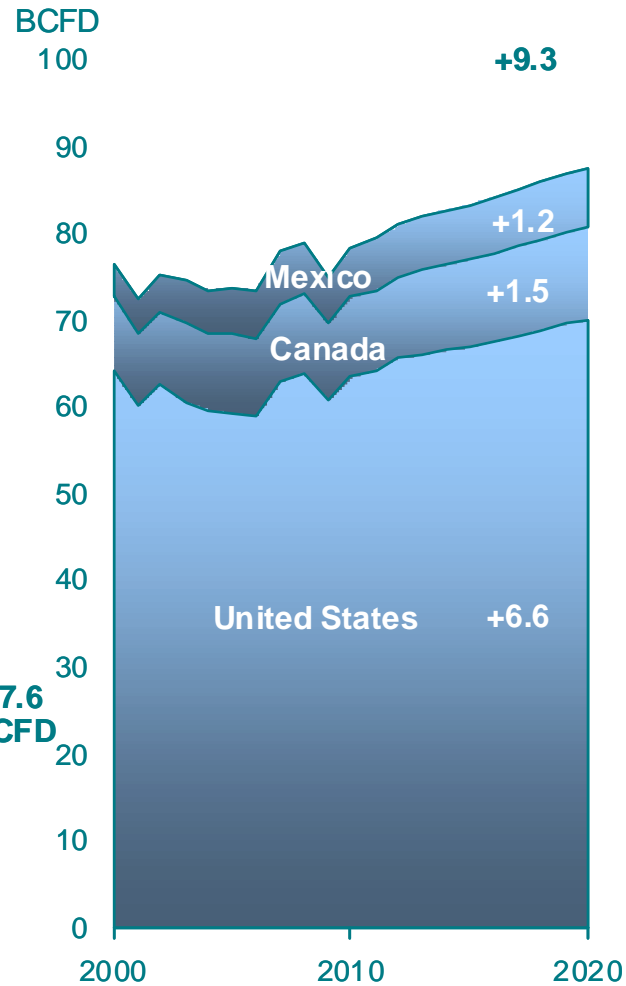


North America energy & gas demand

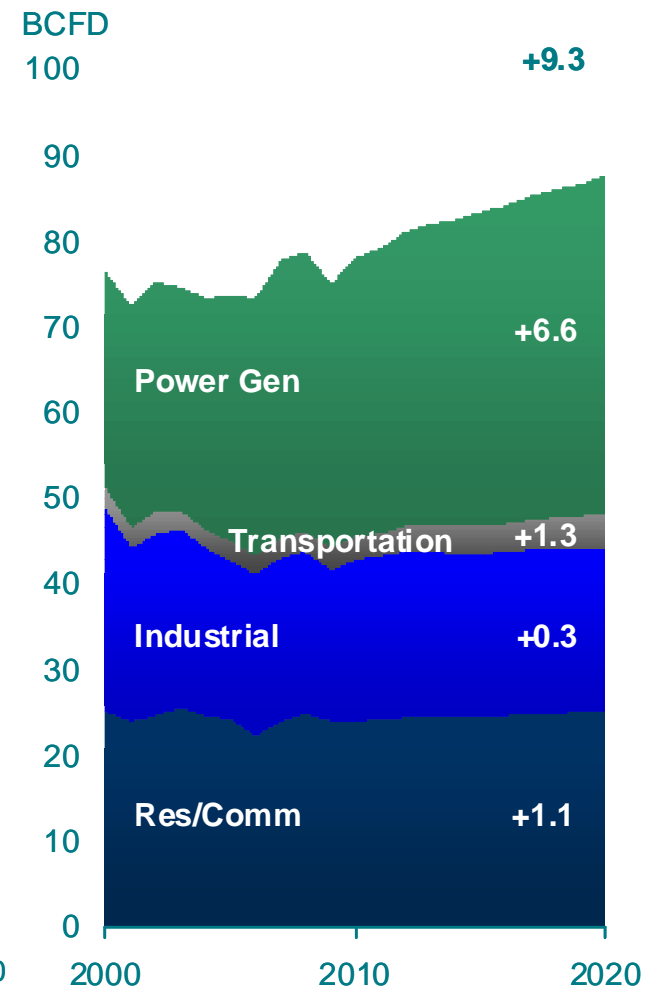
North America energy demand



Gas demand by country



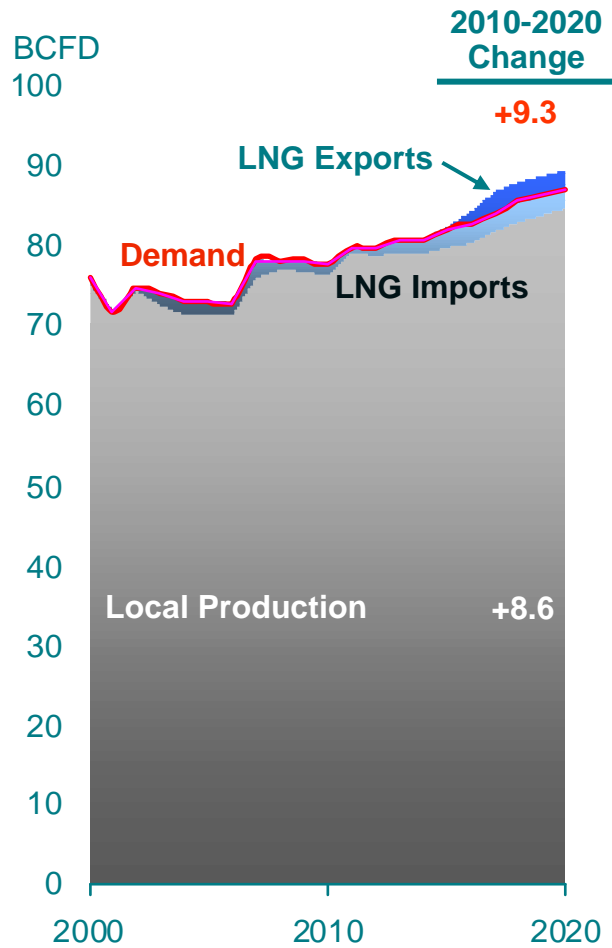
Gas demand by sector



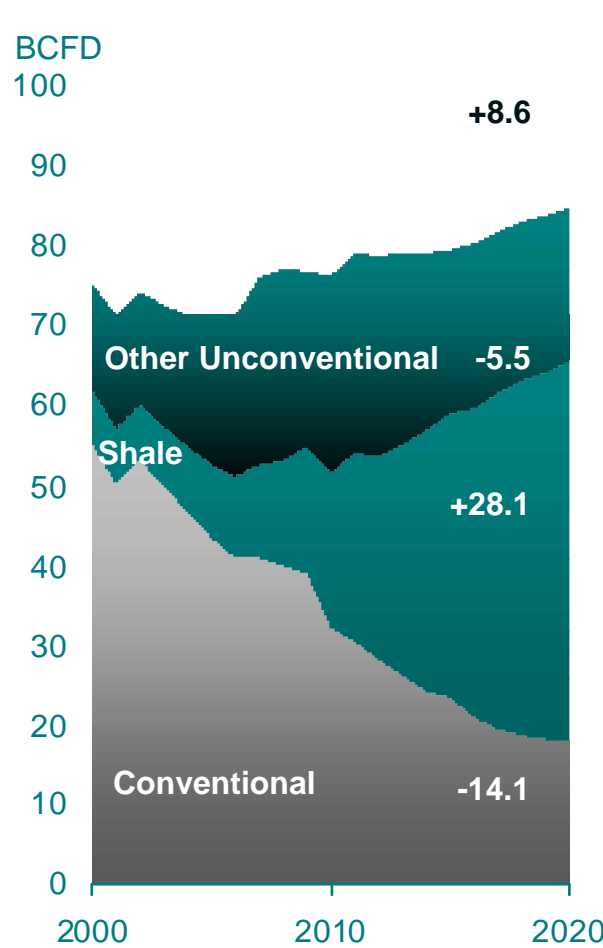
North America gas supply



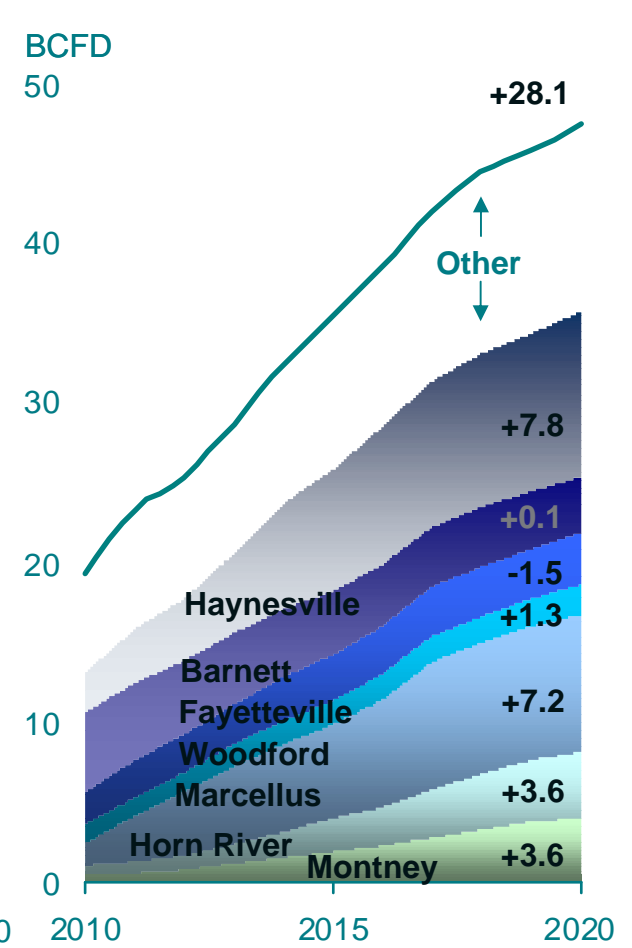
Gas supply by source



Production by type



Shale gas by play



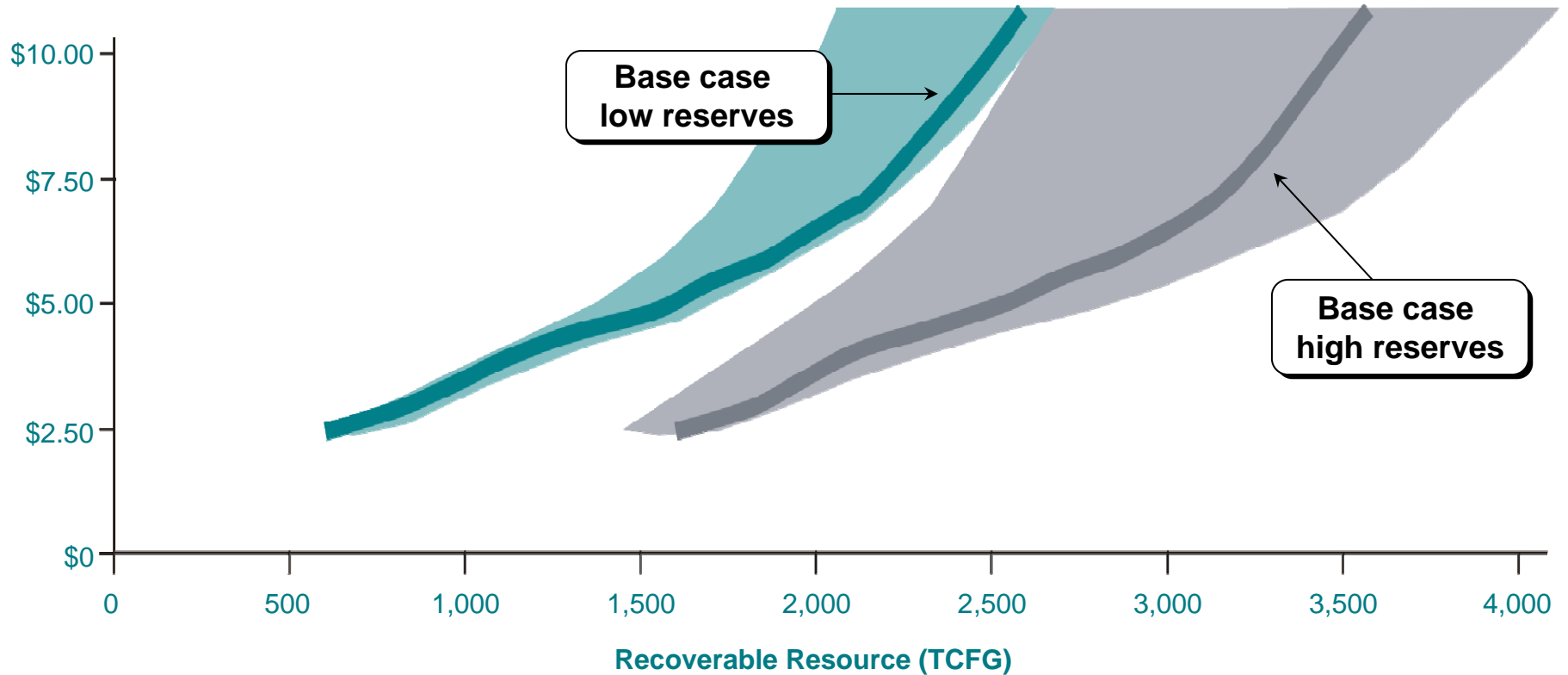
Prolific shale gas production satiates modest demand growth and new potential export opportunities. Other emerging plays should make up an increasing share of the total

North American gas recoverable resources – 2011



Price or supply cost

(\$/MMBtu)



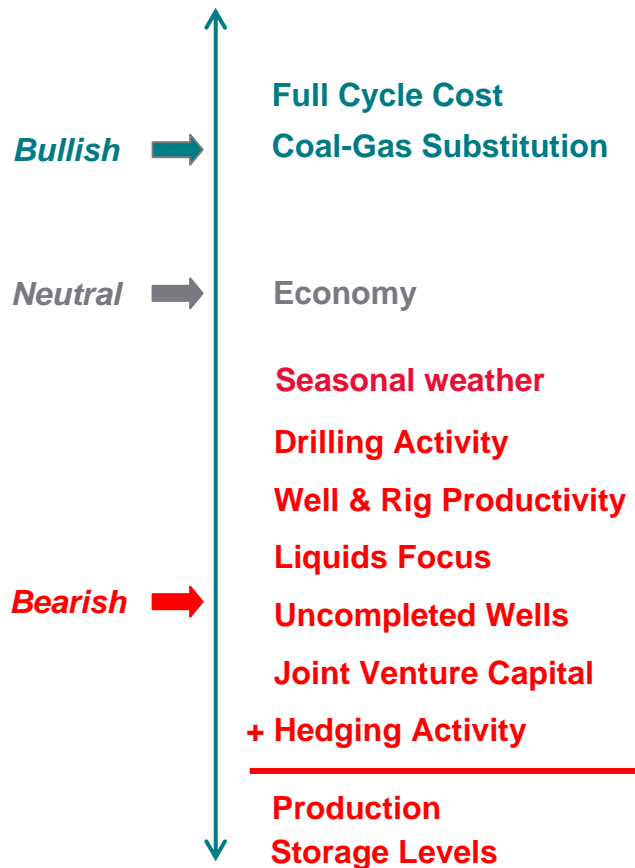
Source: U.S. National Petroleum Council, Resource Supply Task Group (2011)

At supply costs of \$5/mmBTU or less, ~1,500 TCF recoverable resources likely exists under any scenario with the possibility of twice this amount with ambitious progress

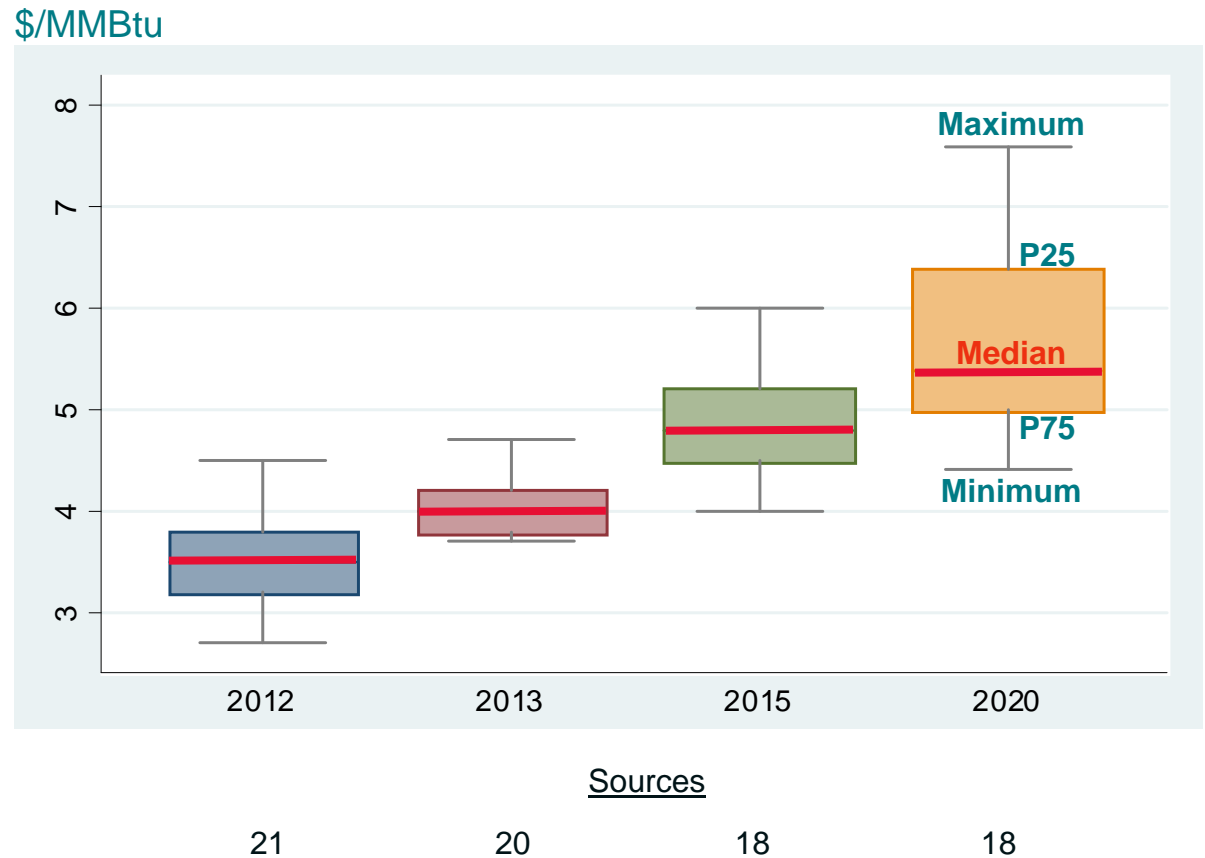


North America natural gas dynamics

Directional pressures



Nymex Natural Gas Price Projections – External Sources

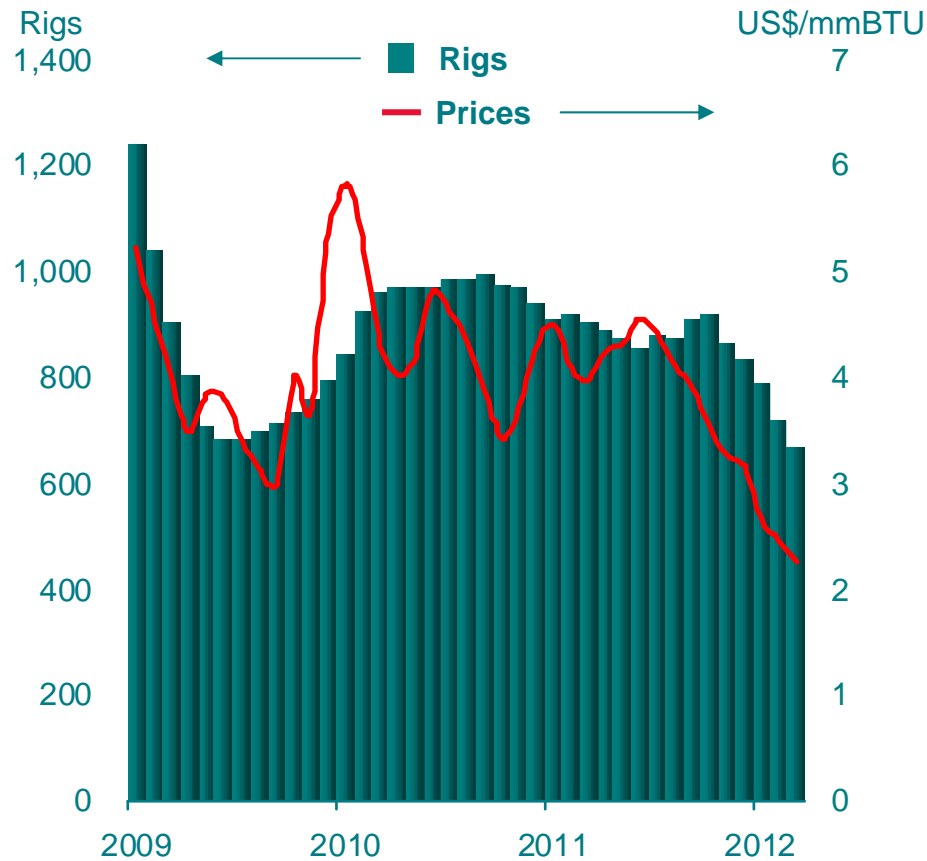


The consensus expects gas to sustain prices of ~4/mmbtu or less through 2013. Uncertainty widens over time but reflects the structural effects of prospective shale supply

Liquids focus

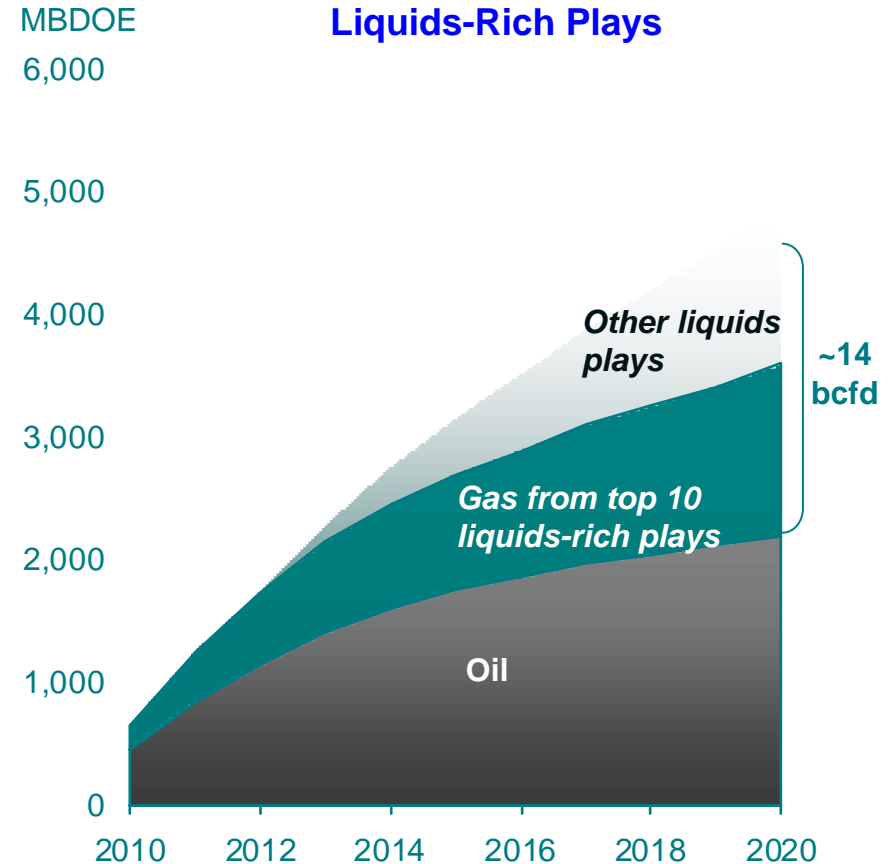


Gas-Directed Rigs & Nymex Prices



Sources: Smith Bits STATS, I.H.S. CERA, Bloomberg

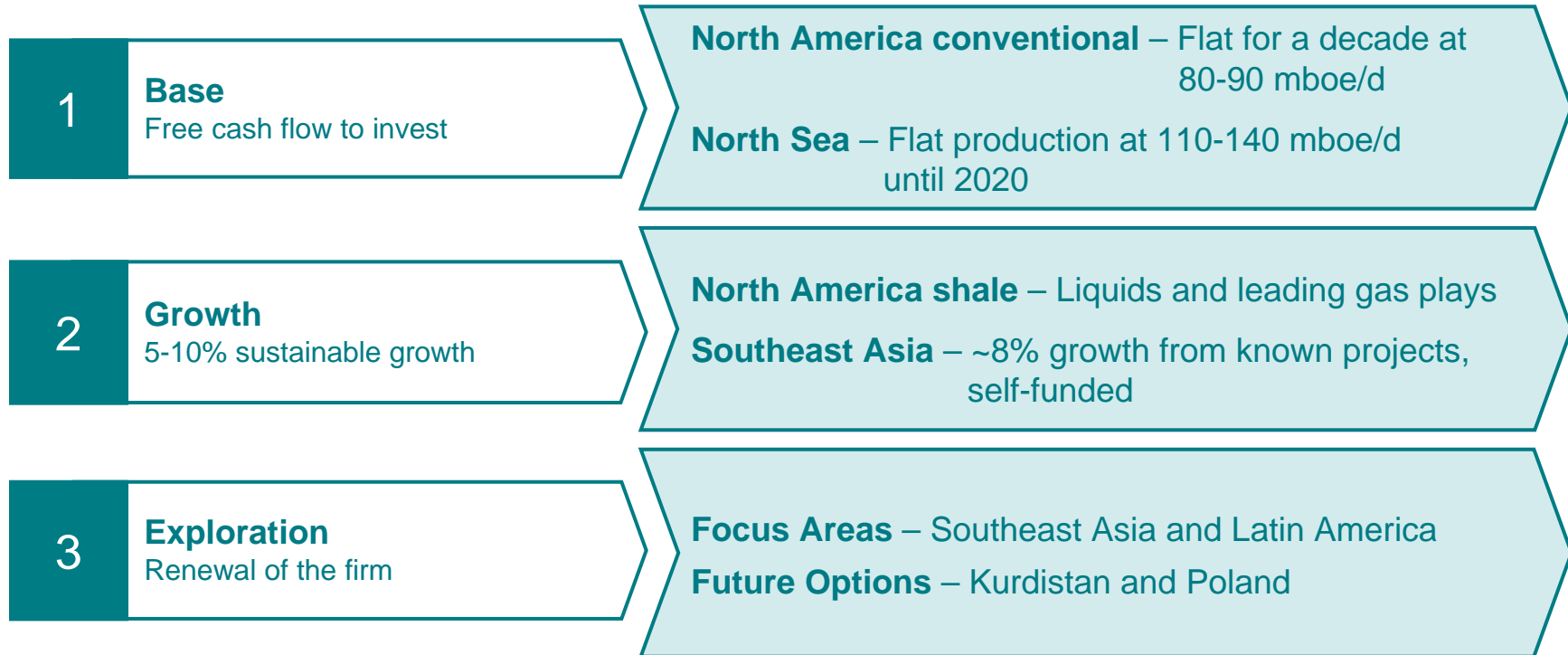
Expected Production Oil & Liquids-Rich Plays



Sources: ITG and I.H.S. CERA (2012)

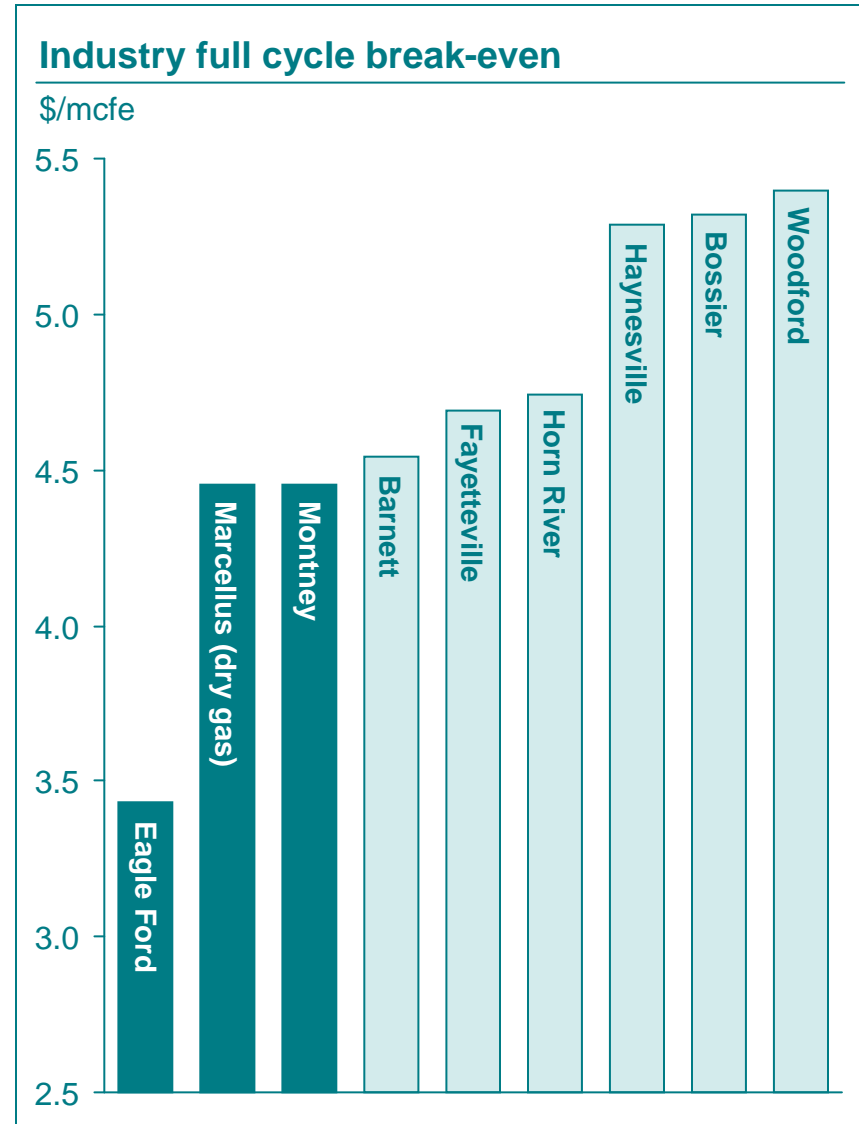
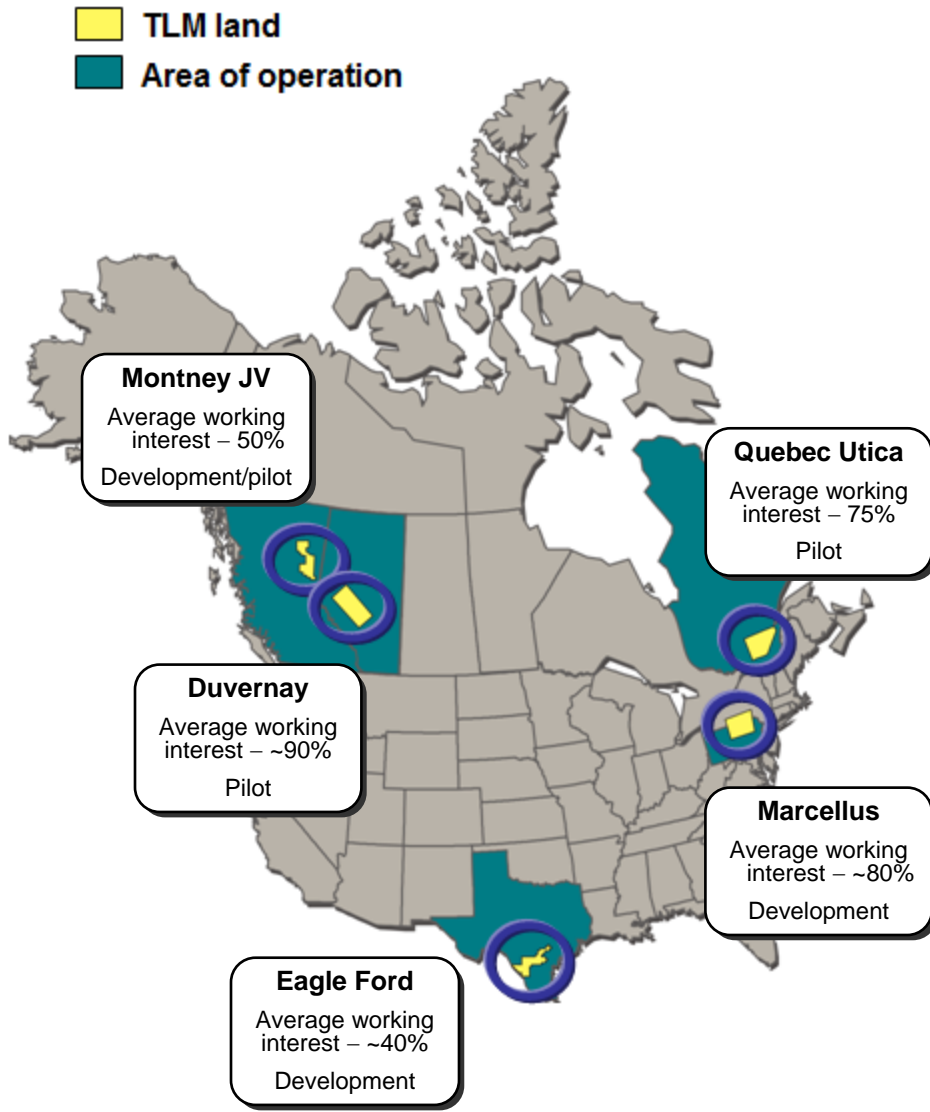
Even as gas-directed rigs respond to lower prices, a concerted shift toward liquids is taking hold. Liquids-rich plays contribute ~1.5 bcf today and could grow to ~14 bcf by 2020

Talisman portfolio strategy





North America – leading shale portfolio



Source: Wood Mackenzie