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TALISMAN ENERGY Inc.

CREATING VALUE IN THE UPSTREAM OIL & GAS BUSINESS

2004 ANNUAL REPORT SUMMARY

Deep Gas – A North American success story

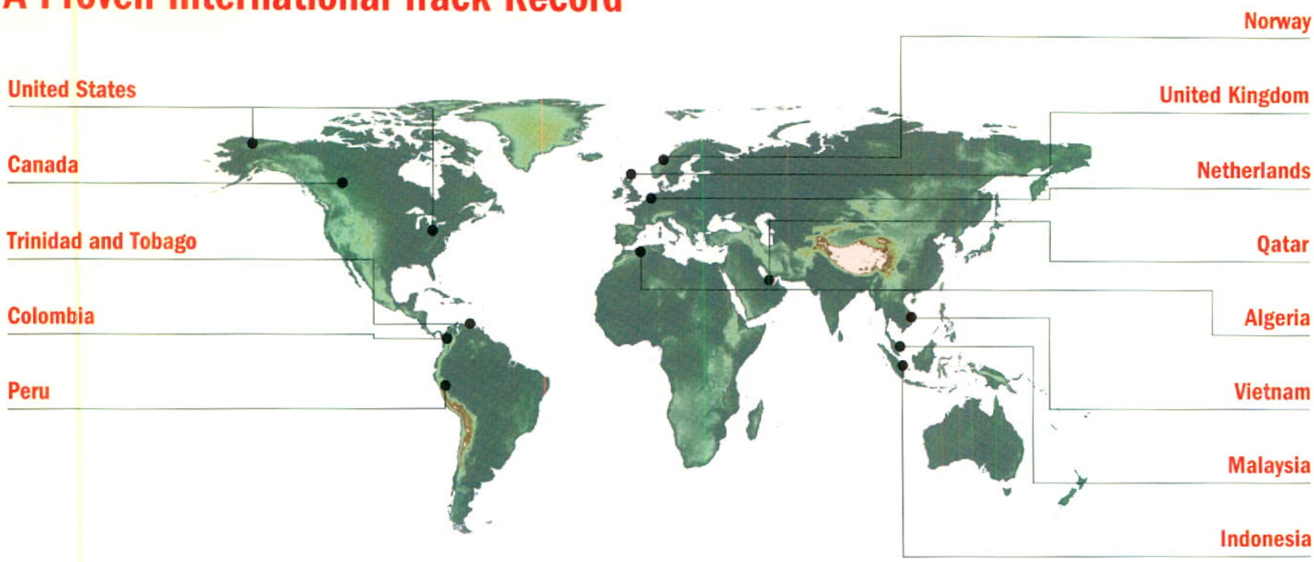
Drilling for deep gas in the BC Foothills

Major new field development under way in the North Sea

Continued production growth in Southeast Asia

Exploring some of the world's most prolific hydrocarbon basins

The Leading Deep Gas Explorer in Canada
A Proven International Track Record



About Talisman

Talisman was established as an independent company in 1992 and is an upstream oil and gas producer with global operations. Talisman's headquarters are in Calgary, Alberta, Canada.

The Company's objective is value creation for its shareholders with a target of 5-10% annual production per share growth.

Talisman's 2004 production was concentrated in North America (47%), the North Sea (32%) and Southeast Asia (18%). Approximately 52% of Talisman's production was crude oil and liquids and 48% was natural gas.

The Company is focusing on larger, deep gas opportunities in North America and large international projects, which it believes will generate higher organic growth rates on average than its peer group.

Talisman is listed on both the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 index. At year end, the Company had an enterprise value (share value and debt) of approximately $15 billion, with 375 million shares outstanding.

Talisman is committed to conducting its activities in a socially, environmentally and economically responsible manner. Talisman's stakeholders are encouraged to read the Company's 2004 Corporate Responsibility Report.

A Premium Investment

An Effective Strategy

Through successful implementation of its strategy, Talisman has become the leading deep gas explorer in Western Canada and a diversified international producer.

Financial Strength

Talisman generated $2.9 billion in cash flow in 2004, with year end debt of $2.5 billion.

Consistent Value Creation

Talisman has grown cash flow per share from $1.06 in 1993 to $7.65 in 2004. Talisman's share price has increased at an annual rate of 17% in the Company's first 13 years of business.

Continuing Growth

Since 1993, Talisman has grown production per share at a compound annual rate of 8%. The Company achieved 11% production per share growth in 2004 and expects to meet or exceed its 5-10% production per share growth targets in 2005, 2006 and 2007.

An Experienced Management Team

Talisman's executive team has extensive experience in the industry and has been responsible for the successful development and execution of the Company's strategy.

Readers are referred to the advisories, definitions and abbreviations at the back of this Annual Report Summary. Talisman Energy Inc. has a number of subsidiaries which conduct business in various parts of the world. For ease of reference, the terms "Talisman" and "Company" are used in this Annual Report Summary to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless the context indicates otherwise. References to production, reserves, acreage and drilling are gross numbers unless otherwise indicated.

Contents

A New Format

This Annual Report Summary provides an overview of the Company's operating and financial results, core areas and investor information. The 2004 Annual Report Financial Review contains the Management's Discussion & Analysis, Audited Consolidated Financial Statements and Notes and Supplementary Information and can be obtained from the Company or viewed online at ***www.talisman-energy.com.***

A Discussion With Dr. Jim Buckee,

President & Chief Executive Officer

When you look back at 2004, what stands out? Were there any surprises or disappointments?

The highlights include our sixth consecutive year of record cash flow per share (up 8%) and an increase in production per share of 11% over 2003. The Company replaced 179% of production last year adding 286 mmboe of proved reserves. We also increased dividends and bought back nearly nine million Talisman shares.

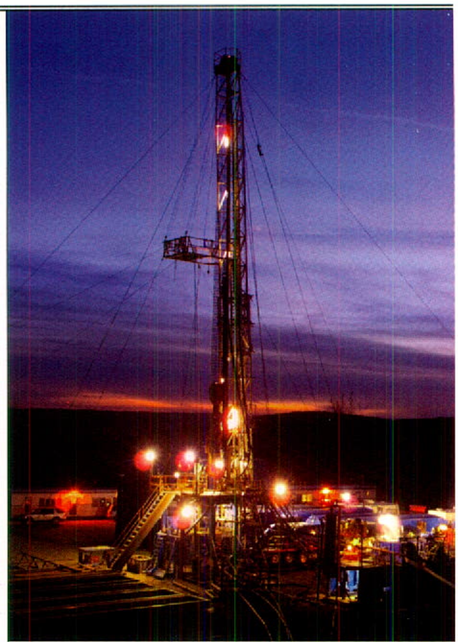
In North America, we have a revitalized program with a target to grow natural gas production by 3-5% in 2005, primarily through exploration and development. By comparison, industry-wide natural gas production has declined. I believe that growth is achievable with our expertise and positioning in the deeper, high potential parts of the basin. Examples of our success include our deep b-60-E well at Monkman, which recently commenced production at 66 mmcf/d (sales gas) and the Northeastern US, where five deep horizontal wells each tested at rates in excess of 17 mmcf/d during 2004.

A Very Strong Year in 2004

Operationally and financially, Talisman had a very strong year in 2004 and expects this momentum to continue in 2005.

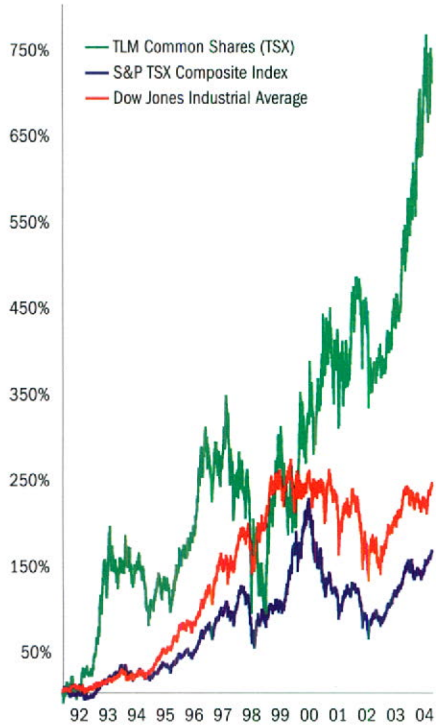
- *Cash flow was a record $2.9 billion on gross sales of $6.9 billion. Higher oil prices and increased volumes were the major factors. Net income was down largely due to non-recurring gains in 2003 (Sudan asset sale, tax rate changes). Earnings from operations removes one-time and non-operational factors. On this basis, earnings increased 15% to $773 million. The Company expects $3.6-$3.8 billion of cash flow in 2005 (see assumptions).* [1]
- *Talisman subdivided its shares on a three for one basis in May 2004. All of the historical per share numbers have been restated for comparability. Talisman also repurchased approximately nine million shares in 2004, bringing the total to 52.5 million over five years. Talisman increased its dividend by 12.5% to $0.30/share in 2004.*
- *Production per share (boe of annual production/average number of shares outstanding) also reached a record high, up 11% over 2003. Since 1993, Talisman has grown its production per share at an annual compound rate of 8%.*
- *The Company's long-term debt at year end was $2.5 billion and the debt to cash flow ratio was 0.8.*
- *Total production averaged 438,000 boe/d in 2004, with the majority of the increase coming from Southeast Asia. Talisman expects production in 2005 to be in the range of 445,000-475,000 boe/d.* [1]
- *Talisman spent a record $2.5 billion on exploration and development in 2004 and expects to spend $3.1 billion in 2005. Proved reserves at year end increased 9% to 1.5 billion boe. These reserves are predominantly high quality light oil and natural gas.*
- *The Company participated in 405 net oil and gas wells in 2004 with a 90% success rate.*
- *WTI oil prices averaged US$41.40/bbl in 2004, an increase of US$10.41 over the previous year. Talisman's realized price averaged $42.75/boe.*

1 Assumes US$40/bbl WTI oil price, US$6.25/mmbtu NYMEX gas price and US$/C$ exchange rate of $0.80. Excludes volumes from the recent acquisition in Norway. Please see the advisories on page 24 and the inside back cover.



Drilling in the Northeastern United States.

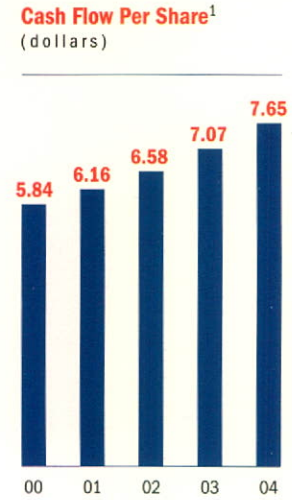
Historical Share Price Growth



Talisman's share price continued to reach new highs closing 2004 at $32.35 and reaching $44.05 in February 2005. Over the 1992-2004 period, Talisman shares have increased by an average of 17% compounded annually compared to 8% for the S&P/TSX Composite Index and 10% for the Dow Jones Industrial Average.

Talisman Energy – Creating Value for Our Shareholders

- Record cash flow of $2.9 billion
- 11% production per share growth
- 179% proved reserve replacement
- Record high share price
- Strong balance sheet
- 5-10% production per share growth target



1 Non-GAAP measure. See inside back cover.

(millions of Canadian dollars unless otherwise stated)	2004	2003	2002	2001	2000
		(restated)	(restated)	(restated)	(restated)
Gross sales	**6,874**	5,610	5,351	5,039	5,213
Cash flow[1]	**2,931**	2,729	2,645	2,494	2,413
Net income	**663**	1,012	544	751	887
Earnings from operations[1]	**773**	673	434	560	763
Shares outstanding (millions) at December 31	**375**	384	393	401	406
Per common share					
Cash flow[1]	**7.65**	7.07	6.58	6.16	5.84
Net income	**1.77**	2.56	1.29	1.80	2.09
Earnings from operations[1]	**2.02**	1.74	1.08	1.38	1.85
Annual dividend	**0.30**	0.23	0.20	0.20	–
Production (boe)	**0.42**	0.38	0.40	0.38	0.36
Reserves (boe)	**4.0**	3.5	3.8	3.7	2.9
Total assets	**12,408**	11,780	12,017	11,228	9,028
Long-term debt	**2,457**	2,203	2,997	2,794	1,703
Oil production (mbbls/d)	**228**	217	273	251	244
Gas production (mmcf/d)	**1,259**	1,090	1,036	1,010	988
Total production (mboe/d)[2,4]	**438**	398	445	419	409
Total net production (mboe/d)[3,4]	**365**	334	366	337	335
Exploration & development spending	**2,538**	2,180	1,848	1,882	1,179
Year end proved reserves (mmboe)	**1,488**	1,362	1,485	1,487	1,177
Net oil and gas wells drilled (number)	**405**	410	310	394	415
Realized oil & gas price ($/boe)[5,6]	**42.75**	38.51	32.89	32.90	34.74
WTI oil price (US$/bbl)	**41.40**	30.99	26.15	25.92	30.35
NYMEX gas price (US$/mmbtu)	**6.09**	5.44	3.25	4.38	3.89
Number of permanent employees at December 31	**1,870**	1,758	1,565	1,358	1,263

1 Non-GAAP measure. See advisories on inside back cover.
2 Production numbers are before royalties, unless otherwise indicated.
3 Net production (after royalties).
Additional information can be found on pages 20 and 21.
4 Six mcf of natural gas equals one boe.
5 Before hedging.
6 Excludes synthetic oil.

In the North Sea, volumes were up 7%, in part due to the Tartan North field, which came onstream in August. The Tweedsmuir development was approved and we are building an offshore wind farm demonstrator project.

In Malaysia/Vietnam, the PM-3 CAA project has performed above expectations, producing an average 42,000 boe/d in its first full year of operation, with operating costs of $1.46/boe. In Indonesia, a 17 year, 2.3 tcf gas sales agreement was signed, with Talisman's share at 36%.

In terms of disappointments, I had high hopes for a couple of potentially large exploration wells that didn't materialize. However, if and when we make large discoveries, they will add significant value. Notwithstanding my longstanding conviction that oil supply is tight while demand growth is inevitable, I was surprised by the continuing strength of commodity prices during the year. Although approximately 80% of our volumes were unhedged in 2004, we had a significant hedging loss. With the continuing strength in oil prices, shareholders will benefit in 2005 because we are virtually unhedged.

What should shareholders pay attention to in 2005?

Our goal is 5-10% production per share growth in 2005, which will be achieved through organic production growth, minor asset acquisitions and share repurchases. Towards that end, we repurchased approximately nine million shares in 2004, an additional 4.4 million shares in early 2005 and acquired a producing oil field in Norway.

In North America, we are drilling a number of large prospects in the Alberta and BC Foothills and Northeastern US. These wells will be a good barometer of the success of our North American programs in 2005. In the UK, the Tweedsmuir development is under way, with first production expected in late 2006 at 45,000 boe/d, net to Talisman. In Indonesia, we are expanding facilities at Corridor to prepare for a significant increase in natural gas sales in 2007.

In Malaysia, the South Angsi field is due to start up this summer, adding an estimated 6,500 bbls/d net to Talisman in 2005 and 12,000 bbls/d in 2006. We have just started offshore production in Trinidad and Tobago and expect to drill our first onshore exploration wells this year.

We should also spud our first exploration well in Qatar this October.

In total, I expect Talisman will generate $3.6-$3.8 billion in cash flow this year, or approximately $10/share on volumes of 445,000-475,000 boe/d, before any major acquisitions.[1]

Talisman has set an annual target of 5-10% production per share growth. Why this particular target and how confident are you that you can meet it?

Our focus is on cash flow and production per share while controlling costs and maintaining a strong balance sheet. Of all the metrics, these are the most comparable across different oil and gas companies and underpin real value creation for shareholders. For example, differing accounting treatment of dry hole costs, stock options and acquisitions can make meaningful earnings comparisons difficult.

Cash flow is dependent on prices, which are not in our control, so we have set production per share as a key target. With our asset mix, including deep gas in North America, international oil opportunities and legacy gas assets in Southeast Asia, I believe 5-10% production per share growth for Talisman is very achievable and will place us in the top quartile of our peer group.

Are you looking at non-conventional opportunities such as heavy oil or tight gas?

Our expertise lies in conventional oil and natural gas and our analysis shows these provide better returns for shareholders. Talisman has enough identified opportunities to provide growth for the next several years. Going forward, our extensive international footprint allows us to view a wide range of potential opportunities. It seems to me that non-conventional ventures tie up large amounts of up-front capital, with the risk of cost overruns, production outages, rising input costs and performance issues. Our diversity allows us flexibility and limits individual project risk. Nevertheless, we do participate in tight gas plays, coal bed methane and have interests in some oil sands leases. At the right time, when technology is better proven, we might invest more in these areas.

1 Assumes US$40/bbl WTI oil price, US$6.25/mmbtu NYMEX gas price and US$/C$ exchange rate of $0.80. Excludes the impact of the recent acquisition in Norway. Please see the advisories on page 24 and the inside back cover.

What about a significant share repurchase or major increase in the dividend?

Over the 2003 to 2005 period, Talisman expects to spend over one billion dollars on share repurchases and dividends. We are doing this while maintaining a strong balance sheet and expanding our capital program. I believe this represents a good balance between growing our core business, adding value and returning cash generated by recent high prices to our shareholders.

We are in business to create value for our investors on an ongoing basis and, given our track record, I think shareholders are happy with our performance. The best way to continue to grow value is to use our skills and assets to find and produce oil and natural gas. Shareholders generally prefer share repurchases over increased dividends, as do I, because the market rewards companies with superior per share growth and capital gains are generally more tax effective.

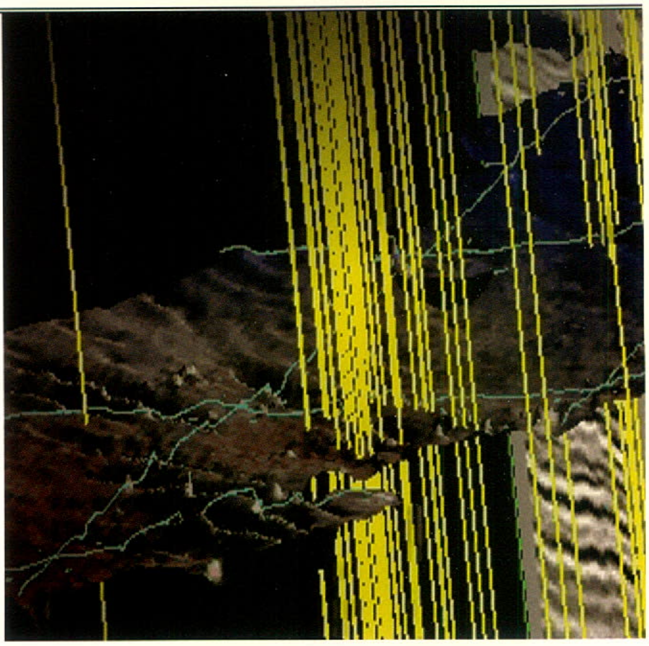
With oil prices hovering around all time highs, is there any upside? Is Talisman a good investment if oil prices fall?

The world consumed an estimated 30 billion barrels of oil in 2004 and replaced only a fraction of that amount. Increasing population and economic growth in countries like India and China continue to push consumption higher. With spare production capacity at record low levels, higher prices are required to ration demand and stimulate drilling activity.

However, given the weakness of the US dollar, the rise in oil prices has been muted in many oil importing countries and energy now forms a smaller part of personal and national budgets in developed countries. Although high in nominal terms, the price of oil, adjusted for inflation, has not yet hit 1980-1989 levels.

So even though prices are high by recent standards, there has been no drop in demand. Given the maturity of the big fields and the political risk in many of the important producing countries, prices will be volatile, but I do not see a return to sub-$30 oil prices for any sustained period of time.

There is always the risk that oil prices will fall in the event of a major economic slowdown; however, Talisman has a very strong balance sheet, as well as a robust and flexible investment portfolio. This would allow us to continue organic growth and acquire assets in a potentially less competitive environment. Also, international production sharing contracts tend to have very low finding, development and operating costs and allow for early cost recovery. In our PSC areas, the government, not the investor, has the most exposure to lower prices.



3-D seismic imaging used to identify natural gas targets in Western Canada.

In the longer term, our growth profile, exploration and development portfolio, technical and commercial expertise and the underlying trends for oil and natural gas prices bode well for Talisman shareholders.

Any final comments?

Sadly, Peter Widdrington, a former Chairman of our Board, passed away suddenly in February of this year. Peter will be missed by his many friends at Talisman.

I would like to thank our Board for their guidance and support. I would also like to thank Talisman's employees and contractors for their continued hard work and commitment.

Jim Buckee

Jim Buckee
President and Chief Executive Officer
Talisman Energy Inc.
March 14, 2005

Talisman's visualization room in Calgary.

A Well Executed and Consistent Strategy

Talisman's purpose is to create value for its shareholders and we have set a target of 5-10% annual production per share growth. The Company's strategy was formulated in 1993, predicated on the following:

- Energy is a vital business. World demand for energy will continue to increase with economic and population growth. Companies that can efficiently grow their underlying reserves and production per share will create value for their shareholders.
- The traditional oil and natural gas business in North America is relatively mature and very competitive. In order to grow and add value, Talisman will search out larger opportunities either in North America or internationally.

Diversity Lessens Risk and Adds Opportunities

Talisman is predominantly an upstream company and this is where our expertise lies. Our belief is that successful exploration and development drilling creates the most value for shareholders. The Company has diversified its operations and opportunities, focusing on deep gas in North America and large international projects. This lessens risk and provides Talisman with a diverse set of opportunities.

Talisman also prefers to operate and maintain high working interests. This enables us to have better control over project timing, costs and implementation. Talisman operates approximately 80% of its production in North America, 65% in the North Sea and all of its production in Malaysia/Vietnam.

In addition, the Company is pursuing a select number of high impact exploration opportunities. Although these prospects typically involve higher risk, a large successful discovery would add significant value. The various projects we are currently developing (Tweedsmuir, South Angsi, Angostura and some parts of PM-3 CAA) are the result of Talisman's previous exploration success.

We Delivered on Our Promises in 2004

In our 2003 Annual Report, we set out a number of key performance measures for 2004:

- **Production of 415,000-445,000 boe/d.** Production averaged 438,000 boe/d.
- **Cash flow of $5.67-$7.33 per share.** Cash flow per share was $7.65, with higher than expected oil and gas prices.
- **Exploration and development spending of $2.3 billion.** Talisman spent close to $2.5 billion, announcing a major increase in North American spending in July.
- **An expected increase in unit operating costs of 5-10%.** Talisman's unit operating costs were up 4% with additional production in relatively low cost areas.
- **Participation in approximately 760 exploration and development wells.** The Company participated in 698 wells with a 92% success rate.

Talisman's Key Targets in 2005[1]

- Production per share growth of approximately 10%
- Production of 445,000-475,000 boe/d
- $3.1 billion in exploration and development spending
- Unit operating costs and transportation costs are expected to fall by 5-7%
- Cash flow per share of $9.80-$10.40

1 Assumes US$40/bbl WTI oil price, US$6.25/mmbtu NYMEX gas price, C$/£ exchange rate of $2.25 and US$/C$ exchange rate of $0.80. Excludes the impact of the recent acquisition in Norway. Detailed guidance can be found on Talisman's website at **www.talisman-energy.com.**

Talisman-operated PM-3 CAA facilities in Malaysia/Vietnam.

What Differentiates Talisman?

Talisman is proud of its track record of value creation as measured by production per share growth.

Talisman differs from its North American based peers with its international diversity. North America accounts for 47% of total production and the North Sea 32%. Talisman also has production in Southeast Asia, Trinidad and Tobago and Algeria. This diversity provides the Company with a range of opportunities to grow and add value and lessens the risk associated with operating solely in one area. Talisman has an 11-year track record as a successful international operator.

Talisman has highly trained, experienced exploration staff with world-class expertise in complex structural and carbonate geology. Talisman is an established international operator with expertise in cost effective operations and managing major developments both onshore and offshore. In the UK North Sea, Talisman is one of the largest operators of infrastructure. Talisman also has extensive expertise in reservoir engineering (maximizing recovery from mature fields) and drilling technology (deep horizontal wells, extended-reach drilling) to ensure optimum recovery rates and safe, efficient, low cost drilling operations.

In addition, Talisman has world-class commercial skills. Over the past five years, the Company has concluded approximately $5 billion worth of corporate and asset acquisitions and sales, both international and domestic.

Talisman is the leading deep gas explorer in Canada. The Company has added more natural gas production at depths below 10,000 feet than any of its competitors. Talisman has added two-to-three times the industry average reserves per new gas discovery. The Company has also pioneered a new deep natural gas play in upstate New York.

In Southeast Asia, Talisman has 2.2 tcf of proved natural gas reserves, underpinning long-term sales contracts. These legacy assets provide a solid base for growth in the region. In Malaysia/Vietnam, Talisman has drilled more wells than any other independent oil and gas company over the past three years.

Talisman played an integral part in the largest oil discovery in Trinidad and Tobago in the past 20 years, with production startup in January 2005. The Company is also producing oil in Algeria.

Talisman has an inventory of high impact exploration opportunities in Alaska, Qatar, Colombia and Peru. Although these drilling opportunities have a relatively high degree of risk associated with them, the potential rewards, in the 50-500 mmbbls range, make them attractive investments for the Company and its shareholders.

The Business Environment

The benchmark WTI crude oil price averaged US$41.40/bbl in 2004, up from US$30.99 in 2003 and US$26.15 in 2002.

Despite current price levels, world oil demand increased by an estimated 2.7 mmbbls/d in 2004, reaching a record high 82 mmbbls/d average for the year. OECD countries only accounted for about one-quarter of the growth, with the majority coming from emerging market economies, in particular China and India.

Non-OPEC production increased by about one mmbbls/d, most of which came from the former Soviet Union and the remainder was supplied by OPEC. As a result, OPEC is running at close to maximum capacity. The lack of surplus crude, combined with political uncertainty in the Middle East and elsewhere, has kept prices at high levels.

NYMEX natural gas prices averaged US$6.09/mmbtu in 2004, compared to US$5.44 in 2003 and US$3.25 in 2002.

Current natural gas prices reflect the inability of US natural gas producers to increase production in recent years. Some estimates show that US natural gas production has fallen by over 5% over the past three years, causing prices to rise to a point where they are rationing demand. US natural gas demand has also fallen by 5%, with most of the decrease occurring in the electrical generation and industrial sectors. In 2004, Canadian natural gas production increased by an estimated 2%.

Talisman netbacks averaged $24.45/boe in 2004, up from $22.99 in 2003.

The Canadian dollar strengthened against the US dollar in 2004, gaining approximately 7%. This had the effect of lowering Talisman's reported netbacks, which are shown in Canadian dollars. Most of Talisman's liquids and natural gas sales are priced off US$ denominated benchmarks.

Unit operating costs were up 4% overall. Increases in Canada and the North Sea were partly offset by the addition of lower cost production elsewhere.

Hedging losses increased to $3.02/boe in 2004. The Company hedged approximately 22% of its 2004 production volumes. However, only 2% of 2005 production is currently hedged.

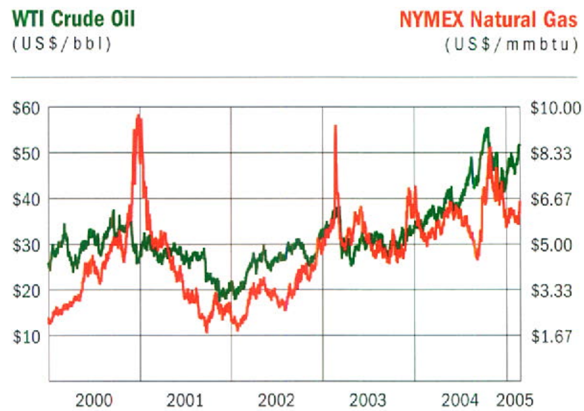
Royalty rates were unchanged at 16%.

Detailed information on Talisman's netbacks can be found in Talisman's Annual Report Financial Review.

Netbacks

(boe)	**2004**	2003	2002	2001	2000
Sales price (before hedging)	**42.75**	38.51	32.89	32.90	34.74
Hedging (gain) loss	**3.02**	1.34	(0.46)	(0.06)	2.53
Royalty	**7.04**	6.18	5.74	6.47	6.29
Transportation	**1.20**	1.26	1.20	–	–
Opex	**7.04**	6.74	6.06	5.79	5.19
Netback	**24.45**	22.99	20.35	20.70	20.73

Excludes synthetic



The Bleo Holm FPSO at the Ross/Blake fields.

Financial and Operating Performance

Talisman-operated Edson Gas Plant.

Talisman generated $2.9 billion in cash flow in 2004

Cash flow totaled $2.9 billion in 2004 ($7.65/share) versus $2.7 billion ($7.07/share) a year earlier. Gross sales were $6.9 billion, up $1.3 billion compared to 2003 on higher volumes and prices. Higher sales revenues were partially offset by higher royalties, operating costs, hedging losses and current taxes. Cash flow is a non-GAAP measure. Please refer to the advisories on the inside back cover.

Net income for 2004 was $663 million ($1.77/share), compared to $1,012 million ($2.56/share) in 2003. Talisman also calculates net income in accordance with US GAAP. On this basis, earnings were $694 million in 2004 ($1.81/share) compared to $922 million ($2.39/share) in 2003.

Earnings from operations up 15%

Talisman's earnings from operations in 2004 were $773 million ($2.02/share) compared to $673 million ($1.74/share) the previous year. Earnings from operations are calculated to help investors understand the Company's core operating performance on a consistent, comparable basis. For example, the sale of Talisman's assets in Sudan and adjustments to tax rates had a significant positive impact on 2003 earnings.

Earnings from operations in 2004 were up, due largely to higher volumes and prices. Offsetting this was higher depreciation, depletion and amortization expense, as well as higher dry hole and exploration costs.

Earnings from operations is a non-GAAP measure. A reconciliation to net income has been provided on the inside back cover.

Liquidity and capital resources

Talisman's long-term debt at year end was $2.5 billion, down from a total of $2.6 billion (comprised of long-term debt of $2.2 billion and preferred securities of $431 million) at the end of 2003. During 2004, the Company generated $3.1 billion of cash from operating activities and spent $2.5 billion on exploration and development while spending $242 million on acquisitions. Talisman also refinanced its preferred securities, paid dividends of $114 million and repurchased almost nine million common shares for $286 million. At year end, the Company had drawn $328 million of its available $1,335 million bank lines of credit.

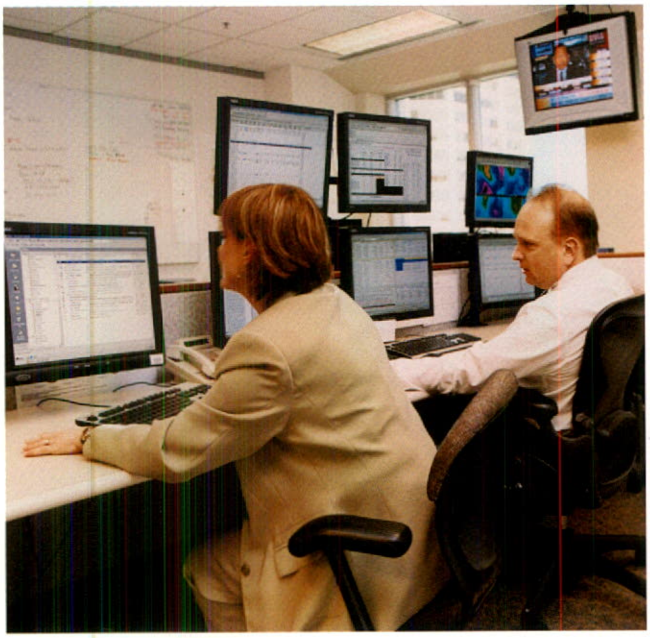
Additional financial information can be found in Talisman's 2004 Annual Report Financial Review, available on our website or by contacting the Company.

Talisman sets production per share record

Production averaged 438,000 boe/d in 2004, an increase of 10%, setting a new record of 0.42 boe per share. The majority of the increase came from a full year of production at the PM-3 CAA project in Malaysia/Vietnam.

	2004	2003	2002
Production (daily average) [1]			
Oil and liquids (bbls/d)			
North America	**57,392**	59,578	62,676
North Sea	**121,861**	113,075	127,486
Southeast Asia	**35,644**	24,430	22,469
Algeria	**13,537**	6,594	–
Sudan	**–**	13,039	60,109
Total oil and liquids	**228,434**	216,716	272,740
Natural gas (mmcf/d)			
North America	**885**	864	820
North Sea	**114**	109	122
Southeast Asia	**260**	117	94
Total natural gas	**1,259**	1,090	1,036
Total mboe/d	**438**	398	445
Total mboe/d (net of royalties)	**365**	334	366

1 Production numbers are before royalties, unless otherwise indicated.



Marketing operations in Calgary.

Oil and liquids production increased by 5% with growth coming from the North Sea (up 8% due to North Tartan startup, Intrepid FCA acquisition and the Galley field acquisition), Southeast Asia (up 46% with a full year of production from PM-3 CAA) and Algeria (up 105% with a full year of production from the MLN field).

Talisman increased its natural gas production by 16%. Production in North America increased 2% with drilling success in the Foothills, west central Alberta and the Northeastern US. Production in Southeast Asia more than doubled. Gas sales in Indonesia averaged 141 mmcf/d (up 26%), reflecting new volumes to Singapore. Gas production from PM-3 CAA in Malaysia/Vietnam, averaged 119 mmcf/d, compared to 5 mmcf/d in 2003.

Talisman replaced 179% of production, a key indicator of future growth

Talisman replaced 179% of production from all sources in 2004 (proved reserves only) and 166% through drilling, including revisions. The Company added 265 mmboe of proved reserves through drilling and development (including net revisions) and 21 mmboe of proved reserves through net acquisitions.

Major contributors to the growth in reserves were 479 bcf of natural gas discoveries, additions and extensions in North America, 85 mmbbls of oil in the North Sea and 695 bcf of natural gas additions in Indonesia, primarily associated with the signing of a major new gas sales contract in August 2004.

As a result, Talisman increased its total proved reserves by 9%, to almost 1.5 billion boe. At year end, Talisman had a reserve life index of 9.3 years for proved reserves and 14 years based on proved and probable reserves. Talisman's net proved reserves increased by 11% to 1.2 billion boe.

Talisman Proved Reserves	Oil & NGLS[1] (mmbbls)	Natural Gas[1] (bcf)	BOE[1] (mm)	Net BOE[2] (mm)
Dec 31, 2003	579	4,695	1,362	1,086
Discoveries, additions and extensions	74	1,252	283	204
Net acquisitions	30	(50)	21	24
Revisions	17	(212)	(19)	22
Production	(82)	(462)	(159)	(129)
Total Proved Dec 31, 2004	618	5,223	1,488	1,207
Total Probable[3] Dec 31, 2004	383	2,624	820	634

1 Talisman working interest reserves before royalties payable, plus royalty interests and net profit interests.

2 Talisman working interest net of royalties, plus royalty interests and net profit interests.

3 See "Reserves Data and Other Oil and Gas Information" on the inside back cover.

Approximately 42% of Talisman's proved reserves are high quality oil and liquids and 58% are natural gas. Proved reserves in North America account for 42% of the total, the North Sea 22% and Southeast Asia 30%. At year end, the Company had 820 mmboe of gross probable reserves, which comprise a large part of Talisman's development inventory.

Capital spending during 2004 totaled $2,375 million for exploration and development, excluding Syncrude and mid-stream expenditures, and $242 million for net acquisitions. Over the past three years, Talisman has added a total of 623 mmboe of proved reserves (including net acquisitions, but excluding the sale of Sudan assets) while spending $7,461 million on exploration, development and net acquisitions.

Approximately 90% of Talisman's proved reserves have been independently evaluated over the past three years.

Operating Areas

North America

Drilling the b-60-E well at Monkman.

Talisman is the leading deep gas explorer in Western Canada and the Company has established a new core gas area in the Northeastern US.

Talisman expects its North American operations to continue to generate substantial free cash flow. The Company's strategy is to explore the deeper more prolific parts of the basin. Over the past five years, Talisman has added more deep gas production than any other company in Canada, resulting in higher reserve additions and production per well than its peers. The Company has also built a significant midstream business to facilitate access to markets and generate third-party revenues.

2004 in review

- Natural gas production averaged 885 mmcf/d, up from 864 mmcf/d in 2003.
- Liquids production averaged 57,392 bbls/d, compared to 59,578 bbls/d in 2003.
- Talisman drilled 444 gross natural gas wells and 137 oil wells (94% success).
- Exploration and development spending was $1.45 billion. Eighty-three per cent of spending was directed toward natural gas projects.
- The Company added 365 bcf of proved natural gas reserves through drilling, net of revisions. At year end, Talisman had 2.6 tcf of proved gas reserves.
- Conventional operating costs averaged $5.30/boe, up from $5.01 in 2003.
- Talisman constructed the first cogeneration facility at a sour gas processing plant in Alberta at Edson. This project will reduce carbon dioxide emissions by 22,000 tonnes a year.
- The Company acquired over 430,000 acres in the Northeastern US, almost doubling its existing acreage.
- Talisman set new production records in the Northeastern US, Alberta Foothills, Deep Basin, Southern Alberta Foothills and Bigstone/Wild River regions.
- The Company drilled another successful Paleozoic gas well (b-60-E) in its core Monkman area. The Company has built a strategic land position in the area.
- Talisman transported and processed record gas volumes through its midstream business.

A major new discovery in Northeastern British Columbia

Talisman is repeating history in the Monkman area. On April 7, 1992, Talisman (then BP Canada) announced that the Brazion well, c-59-E/93-P-5 tested at a rate of 85 mmcf/d from the Triassic formation. On November 1, 2004 Talisman announced that a deeper (Paleozoic) well, Brazion b-60-E/93-P-5 had tested at 40 mmcf/d restricted by surface equipment. The well was brought on stream in December at a rate of 66 mmcf/d sales gas (Talisman 80%). This is a major discovery and could be the key to significant new gas finds deep beneath Talisman's existing infrastructure in the Monkman area.

To date, the Triassic play has produced 2 tcf of natural gas. Talisman hopes this deeper play will be as prolific.

2005 outlook

- Exploration and development spending is expected to be $1.4 billion, with over 90% directed towards natural gas projects.
- Production targets are 920-940 mmcf/d of natural gas and 54,000-56,000 bbls/d of oil and liquids.
- Talisman plans to participate in 525 wells, including 23 in Appalachia, eight in Monkman, 147 in the Edson area and 29 in the Alberta Foothills.
- Talisman plans to spend $54 million to expand and optimize its operated pipeline systems and associated infrastructure and to build the Lynx pipeline to tie in reserves from the Northern Alberta Foothills.

The North Sea

Talisman-operated Tartan platform.

In the UK Central North Sea, Talisman has established a number of operated commercial hubs, which provide significant value creation through low risk development, adjacent exploration opportunities, secondary recovery and third-party tariff revenue. Talisman operates the second largest number of oil fields in the UK North Sea.

Talisman is also building a new core area in the Norwegian sector of the Central North Sea. The Central North Sea has large remaining potential with an estimated 42 billion boe yet to find. The Company has a large drilling program under way, designed to increase oil and liquids production 20-25% by 2008.

2004 in review

- Liquids production averaged 121,861 bbls/d, an increase of 8% versus 113,075 bbls/d in 2003.
- Natural gas production averaged 114 mmcf/d, compared to 109 mmcf/d in 2003.
- Exploration and development spending was $507 million.
- Talisman drilled 20 successful oil and gas wells.
- Talisman added 81 mmboe of proved reserves and had 328 mmboe of proved reserves at year end (86% developed).
- Operating costs averaged $11.93/boe, up from $10.22/boe in 2003, due in part to a stronger pound sterling.
- Talisman successfully appraised the Tweedsmuir South discovery.
- Development of the Tweedsmuir and Tweedsmuir South oil fields commenced in August.
- Talisman acquired the Flotta Catchment Area interests of the Intrepid Energy group.
- Production from the Tartan North development commenced ahead of schedule in August.
- Talisman expanded its position in Norway; the Company was awarded five new licenses and also acquired additional exploration acreage.
- Talisman announced plans to construct an offshore wind farm demonstrator project at Beatrice.

A new development at Tweedsmuir

On August 26, 2004, Talisman celebrated its tenth anniversary in the North Sea. The Company has grown its production from 30,000 boe/d in 1995 to over 140,000 boe/d.

Talisman also announced development of the $770 million, 70 mmboe Tweedsmuir and Tweedsmuir South fields, helping to ensure future growth. These fields are expected to start production in late 2006, averaging 45,000 boe/d net to Talisman in 2007.

2005 outlook

- Production targets are 117,000-125,000 bbls/d of oil and liquids and 110-120 mmcf/d of natural gas.
- Development of the Tweedsmuir and Tweedsmuir South oil fields will continue.
- Exploration and development spending is expected to be approximately $1 billion. The Tweedsmuir development is the primary reason for the increase in spending compared to 2004.
- Talisman plans to participate in up to 10 exploration and 30 development wells.
- In February 2005, Talisman announced the acquisition of all of the outstanding shares of Pertra A.S. in Norway. This includes a 70% interest in the operated Varg oilfield. This acquisition is expected to add approximately 10,000 bbls/d to the 2005 targets set out above.

Southeast Asia

Corridor Gas Plant in Indonesia.

Talisman has more than doubled its production in Southeast Asia over the past two years and expects to continue production growth from existing projects to the end of the decade. Southeast Asia was Talisman's lowest operating cost area in 2004.

In Indonesia, Talisman continues to develop its large natural gas reserves in the Corridor Block. A major new gas sales contract was signed during the year.

In Malaysia and Vietnam, the PM-3 CAA project performed above expectations producing 42,000 boe/d (net Talisman) during its first full year of operations. Development of the South Angsi field is continuing according to plan.

2004 in review

- Natural gas production averaged 260 mmcf/d, an increase of 122%. Liquids production averaged 35,644 bbls/d, an increase of 46%.
- Exploration and development spending totaled $255 million.
- Talisman drilled 30 exploration and development wells.
- Talisman added 134 mmboe of proved reserves and had 453 mmboe of proved reserves at year end.
- In Indonesia, an agreement was signed for the sale of 2.3 tcf of natural gas from the Corridor PSC to PT Perusahaan Gas Negara (Persero), Tbk. ("PGN"), the Indonesian national gas transmission and distribution company. Talisman's share is 36%. This gas sales agreement will result in PGN building a major pipeline linking the island of Sumatra to major gas markets in West Java.
- The PGN gas sales agreement underpins further development of the Suban field and the expansion of the gas production and processing facilities, which commenced in August.
- Talisman signed a PSC for Block PM-314 offshore Malaysia in the highly prospective Malay Basin and the initial seismic program has been completed.
- The Tanjung enhanced oil recovery contract expired in November and the Jambi enhanced oil recovery contract expired in early 2005. Talisman's non-operated interest in the Madura PSC was sold in December.

2005 outlook

- Production targets are 255-285 mmcf/d of natural gas and 33,000-37,000 bbls/d of oil and liquids.
- Exploration and development spending is expected to be $310 million.
- In Indonesia, the Suban Phase 2 gas expansion project in the Corridor PSC will continue, including the installation of two new gas trains, additional pipelines and infrastructure.
- The Company continues to look for additional markets for its large remaining uncontracted Corridor gas reserves.
- In Malaysia, the South Angsi field is expected to come onstream in mid-2005 with an estimated 6,500 bbls/d of production in 2005 and 12,000 bbls/d in 2006.
- In Malaysia/Vietnam, the Company expects to start development of the northern fields in PM-3 CAA.
- Talisman is planning to drill up to 26 exploration and development wells in Southeast Asia.

A fast track, low cost development strategy for South Angsi

Development of the South Angsi field in Block PM-305 is a good illustration of Talisman's fast track, shallow water, oil exploration and development strategy in Southeast Asia. The initial discovery was made in April 2003, the jacket was installed in October 2004 and first production is expected in mid-2005.

Other International and Frontier Areas

The Greater Angostura project.

Although North America, the North Sea and Southeast Asia accounted for 97% of Talisman's production in 2004, the Company continues to look for development opportunities where it can apply its international skills. Talisman is also active in a number of high risk, high reward exploration plays, utilizing its expertise in structurally complex geological settings.

Algeria

Talisman has a 35% non-operated interest in the Greater MLN project in Block 405a located in eastern Algeria. In addition, the Company has a 2% interest in the unitized Ourhoud field. Liquids production in 2004 averaged 13,537 bbls/d, compared to 6,594 bbls/d in 2003, mainly as a result of a full year of production from Greater MLN.

In 2005, Talisman plans capital spending of approximately $55 million, which includes drilling 14 development wells. Talisman is also planning development of the MLSE complex.

Talisman's share of production is expected to average between 15,000-17,000 bbls/d in 2005.

Trinidad and Tobago

Talisman has a 25% non-operated interest in the Greater Angostura project, a major oil and gas development in Block 2(c) offshore Trinidad. During 2004, a central processing platform, three wellhead platforms, export pipeline and new terminal facilities were installed. Field development is now complete and first oil production from the platform was announced in January 2005.

The production target for 2005 is 12,000-16,000 bbls/d of oil and plans include further exploration and development drilling.

Onshore, Talisman completed a major 3D seismic acquisition program on the Eastern Block. Seismic data is being interpreted to define a drilling program, which will commence in 2005.

Total capital spending in 2005 is estimated to be approximately $100 million, which includes participation in eight development and up to eight exploration and appraisal wells.

Alaska

The Company has developed a strategic land base in Alaska, on trend with a number of very large oil discoveries and now holds nearly 450,000 acres of exploration lands.

Colombia

In Colombia, Talisman has non-operated interests in various blocks. In mid-2004, the Company began drilling the Tangara-1 exploration well (Talisman 30%) on the Tangara block. The well is expected to drill until approximately the end of the first quarter of 2005.

Talisman's 2005 capital spending program in Colombia is expected to be $8 million.

Peru

In Peru, Talisman acquired a 25% non-operated interest in Block 64 in the Marañon basin. An exploration well drilled in 2004 encountered drilling problems and was unable to reach the target formation.

The Company's 2005 capital spending program is expected to be $13 million, primarily to fund drilling a second exploration well, which spud in early 2005.

Qatar

Talisman holds a 100% interest in Block 10 offshore Qatar. During 2004, the Company completed 3D seismic acquisition. Interpretation of the seismic data is under way and is expected to lead to the drilling of an exploration well in October 2005.

Talisman's 2005 capital spending program for Qatar is $15 million.

An Experienced Management Team

James W. Buckee was appointed President and Chief Executive Officer of Talisman Energy Inc. (formerly BP Canada Inc.) in May 1993. Dr. Buckee has been with the Company and its predecessor for 28 years and is responsible for leading the development and execution of the Company's long-term strategy with a view to creating shareholder value.

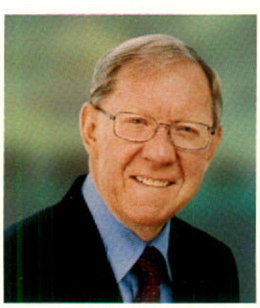
Michael D. McDonald is Executive Vice-President, Finance and Chief Financial Officer. Mr. McDonald has 23 years experience with the Company and has held positions of progressively increasing responsibility in the Company. He is currently responsible for the Company's global Financial Reporting, Treasury, Tax and Accounting functions.

Ronald J. Eckhardt is Executive Vice-President, North American Operations. Mr. Eckhardt has 19 years' experience with the Company and is responsible for all of Talisman's development and production operations in Canada and the lower 48 states.

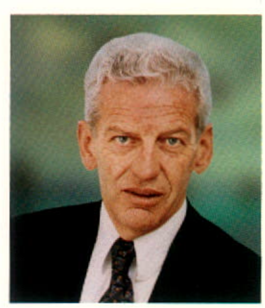
Robert M. Redgate is Executive Vice-President, Corporate Services. Mr. Redgate has been with the Company for 27 years. His responsibilities include Information Systems, Materials and Contracts, Health, Safety and Environmental Affairs, Security, Facilities Administration and Human Resources.

T. Nigel D. Hares is Executive Vice-President, Frontier and International Operations. Over the past 10 years, Mr. Hares has led Talisman's international operations making the company the largest Canadian based international producer.

M. Jacqueline Sheppard is Executive Vice-President, Corporate and Legal, and Corporate Secretary. Ms. Sheppard joined Talisman in 1993 and is responsible for the Company's worldwide legal affairs, corporate projects and acquisitions and is Secretary to the Board. Corporate Communications, Investor Relations and Corporate Social Responsibility are also her responsibilities.



Joseph E. Horler is Executive Vice-President, Marketing. Mr. Horler has been with the Company for 18 years and is responsible for marketing Talisman's global natural gas, crude oil, sulphur and natural gas liquids production.



John 't Hart is Executive Vice-President, Exploration. He joined the Company in 1978. Dr. 't Hart is responsible for Talisman's global exploration program.

Corporate Governance

Talisman has a firm commitment to sound principles of corporate governance.

Talisman's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by the Toronto Stock Exchange ("TSX"), all of the New York Stock Exchange ("NYSE") corporate governance listing standards applicable to non-US companies and substantially all of the NYSE corporate governance listing standards applicable to US companies. Talisman's corporate governance practices also satisfy the proposed Canadian corporate governance and best practices rules.

Board of Directors

Talisman's Board of Directors sees its principal role as stewardship of the Company and its fundamental objective as the creation of shareholder value, including the protection and enhancement of the value of the Company's assets. The Board oversees the conduct of the business and management, which is responsible for developing long-term strategy and conducting the Company's day-to-day business.

Among its duties, the Board ensures systems are in place to manage the risks and through the Chief Executive Officer, sets the attitude and disposition of the Company towards regulatory compliance, environmental, safety and health policies, financial practices and reporting.

Independence of the Board

In full compliance with the TSX recommendations and the NYSE corporate governance listing standards, all members of Talisman's Board are unrelated and independent of management, except for the President and Chief Executive Officer. The composition of the Board, including the independence of the Chairman and his specified role, ensures that Talisman's Board has appropriate structures and procedures in place to ensure that the Board can function independently of management. All committees of the Board of Directors are composed entirely of unrelated, independent directors with the exception of the Executive Committee and the Pension Funds Committee, the majority of whose members are unrelated and independent.

Stock exchange and regulatory compliance

With respect to the NYSE corporate governance listing standards, Talisman's corporate governance practices differ significantly in only two respects from those applicable to US companies. First, the NYSE listing standards require that the Audit Committee charter specify that the Audit Committee assist the Board of Directors in its oversight of Talisman's compliance with legal and regulatory requirements. Talisman's Board oversees Talisman's compliance with legal and regulatory requirements and this responsibility is included in the Board's Terms of Reference. Each of the Board committees assists the Board in its oversight of Talisman's compliance with legal and regulatory requirements in each of their areas of responsibility. Secondly, the NYSE listing standards require shareholder approval of all equity compensation plans and any material revisions to such plans, regardless of whether the securities to be delivered under such plans are newly issued or purchased on the open market, subject to a few limited exceptions. In contrast, the TSX rules require shareholder approval of equity compensation plans only when such plans involve newly issued securities. Equity compensation plans that do not provide for a fixed maximum number of securities to be issued must have a rolling maximum number of securities to be issued based on a fixed percentage of the issuer's outstanding securities and must also be approved by shareholders every three years. If the plan provides a procedure for its amendment, the TSX rules require shareholder approval of amendments only where the amendment involves a reduction in the exercise price or an extension of the term of options held by insiders.

Talisman either satisfies the requirements of the Multilateral Instrument 58-101and Multilateral Policy 58-102 as published on October 29, 2004, or has implemented procedures designed to meet the same governance objectives.

Corporate Governance at Talisman

A full description of Talisman's approach to corporate governance can be found in Schedule A to the Company's 2005 Management Proxy Circular.

Mandates of Talisman's Board, its committees, the Chairman and the Chief Executive Officer may be obtained from the Company website at ***www.talisman-energy.com****.*

Talisman's Compliance

A list of the existing TSX corporate governance guidelines is set out below. Talisman complies with each guideline.

Talisman's Compliance		TSX Corporate Governance Guidelines
✓	1	The Board should assume responsibility for the stewardship of the Company, explicitly for:
✓		(a) adoption of a strategic planning process;
✓		(b) identification of the principal risks of the Company's business and ensuring implementation of appropriate systems to manage these risks;
✓		(c) succession planning, including appointing, training and monitoring senior management;
✓		(d) a communications policy; and
✓		(e) the integrity of the Company's internal control and management information systems.
✓	2	A majority of the Company's Directors should be unrelated.
✓	3	The Board has responsibility to apply to each individual Director, the definition of "unrelated Director", disclosing on an annual basis the analysis of the application of the principles supporting this conclusion.
✓	4	The Board of every Company should appoint a committee of Directors composed exclusively of outside, i.e., non-management Directors, a majority of whom are unrelated Directors, with the responsibility for proposing to the Board new nominees to the Board and for assessing Directors on an ongoing basis.
✓	5	Every Board of Directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board as a whole, its Committees and the contribution of individual Directors.
✓	6	The Company should provide an orientation and education program for new Board members.
✓	7	The Board should examine its size and undertake where appropriate, a program to reduce the number of Directors to a number which facilitates more effective decision-making.
✓	8	The Board should review the adequacy and form of the compensation of Directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.
✓	9	Committees of the Board of Directors should generally be composed of outside Directors, a majority of whom are unrelated Directors, although some Board committees may include one or more inside Directors.
✓	10	The Board should assume responsibility for, or assign to a committee of Directors, the general responsibility for developing the Company's approach to governance issues. This Committee would, amongst other things, be responsible for the Company's response to these governance guidelines.
✓	11	The Board, together with the CEO, should develop position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the Board should approve or develop the corporate objectives that the CEO is responsible for meeting.
✓	12	The Board of Directors should have in place appropriate structures and procedures to ensure that it can function independently of management. An appropriate structure would be to (i) appoint a chair of the Board who is not a member of management with responsibility to ensure the Board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the Board or to a Director, sometimes referred to as the "lead Director". Appropriate procedures may involve the Board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the Board's relationship to management to a committee of the Board.
✓	13	The Audit Committee should be composed only of outside Directors. The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee should have a direct communication channel with the internal and external auditors to discuss and review specific issues as appropriate. The Audit Committee duties should include oversight responsibility for management reporting on internal controls. Although it is management's responsibility to design and implement an effective system of internal controls, it is the responsibility of the Audit Committee to ensure that management has done so.
✓	14	The Board should implement a system that enables an individual Director to engage an outside adviser at the Company's expense in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate Committee of the Board.

Credentials. Corporate Responsibility. Sustainable Value Creation.

Talisman maintains high standards in the areas of ethical business conduct, environmental practices and community relations.

At Talisman, the business case for corporate responsibility is clear. Acting responsibly helps the Company avoid risk, improves employee recruitment and retention, creates business opportunities and increases access to capital. We call it sustainable value creation. We think our corporate responsibility **Credentials** speak for themselves. We invite you to read our 2004 Corporate Responsibility Report.

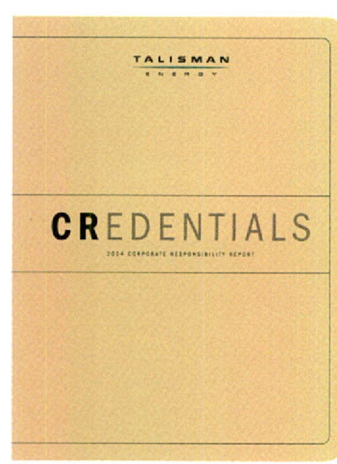
2004 ACCOMPLISHMENTS

Social Performance

- Confirmed participation in the UN Global Compact.
- Worked with approximately 45,000 Canadian stakeholders, regarding more than 1,345 projects.
- Revised our Security Policy based on the Voluntary Principles on Human Rights and Security.
- Continued refinement of our new project risk assessment process.
- Signed a Memorandum of Understanding with the United Nations Development Program in Trinidad.

Health, Safety and Environmental Performance

- Recorded no fatalities, life-threatening occupational injuries or major environmental incidents at Talisman-operated facilities.
- Constructed a cogeneration facility in Edson, Alberta and began development of an offshore wind farm demonstrator project in the North Sea.
- Continued our ongoing program of routine HSE audits and reviews at Talisman operations worldwide.
- Completed formal Environmental Impact Assessments in support of proposed projects in Trinidad, the UK, Malaysia/Vietnam and the US.
- Received Gold Award from Scotland's Health at Work program, recognizing Talisman (UK)'s commitment to promoting a healthy lifestyle amongst its workers.



*You can view Talisman's Corporate Responsibility Report on its website, **www.talisman-energy.com** or write, phone or email Talisman's executive office in Calgary.*

Consolidated Balance Sheets

(unaudited)

(As at December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	**2004**	2003
Assets		(restated)[1]
Cash and cash equivalents	**38**	98
Accounts receivable	**836**	760
Inventories	**78**	100
Prepaid expenses	**18**	17
	970	975
Accrued employee pension benefit asset	**61**	63
Other assets	**64**	76
Goodwill	**466**	473
Property, plant and equipment	**10,847**	10,193
	11,438	10,805
Total assets	**12,408**	11,780
Liabilities		
Current		
Accounts payable and accrued liabilities	**1,302**	1,064
Income and other taxes payable	**341**	154
	1,643	1,218
Deferred credits	**105**	57
Asset retirement obligations	**1,272**	1,157
Long-term debt	**2,457**	2,203
Future income taxes	**2,100**	2,127
	5,934	5,544
Contingencies and commitments		
Shareholders' equity		
Preferred securities	**–**	431
Common shares	**2,666**	2,725
Contributed surplus	**71**	73
Cumulative foreign currency translation	**(150)**	(114)
Retained earnings	**2,244**	1,903
	4,831	5,018
Total liabilities and shareholders' equity	**12,408**	11,780

1 Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

*Talisman's 2004 Annual Report Financial Review contains the detailed Management's Discussion and Analysis, Consolidated Financial Statements and Notes, and Supplementary Information and can be obtained from the Company or viewed online at **www.talisman-energy.com.***

Consolidated Statements of Income

(unaudited)

(Years ended December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	**2004**	2003	2002
Revenue		(restated)[1]	(restated)[1]
Gross sales	**6,874**	5,610	5,351
Less hedging loss (gain)	**480**	194	(75)
Gross sales net of hedging	**6,394**	5,416	5,426
Less royalties	**1,124**	894	927
Net sales	**5,270**	4,522	4,499
Other	**85**	76	80
Total revenue	**5,355**	4,598	4,579
Expenses			
Operating	**1,198**	1,039	1,048
Transportation	**192**	181	194
General and administrative	**183**	152	138
Depreciation, depletion and amortization	**1,650**	1,435	1,462
Dry hole	**311**	251	174
Exploration	**238**	213	185
Interest on long-term debt	**158**	137	164
Stock-based compensation	**171**	185	–
Other	**89**	16	113
Total expenses	**4,190**	3,609	3,478
Gain on sale of Sudan operations	**–**	296	–
Income before taxes	**1,165**	1,285	1,101
Taxes			
Current income tax	**478**	229	258
Future income tax (recovery)	**(105)**	(48)	175
Petroleum revenue tax	**129**	92	124
	502	273	557
Net income	**663**	1,012	544
Per common share (Canadian dollars)			
Net income	**1.77**	2.56	1.29
Diluted net income	**1.74**	2.53	1.27
Average number of common shares outstanding (millions)	**383**	386	402
Diluted number of common shares outstanding (millions)	**390**	391	409

1 Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

Consolidated Statements of Cash Flows

(unaudited)

(Years ended December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	**2004**	2003	2002
		(restated)[1]	(restated)[1]
Operating			
Net income	**663**	1,012	544
Items not involving current cash flow	**2,030**	1,504	1,916
Exploration	**238**	213	185
Cash flow	**2,931**	2,729	2,645
Deferred gain on unwound hedges	**–**	(9)	(43)
Changes in non-cash working capital	**203**	(128)	(187)
Cash provided by operating activities	**3,134**	2,592	2,415
Investing			
Capital expenditures			
Exploration, development and corporate	**(2,565)**	(2,218)	(1,874)
Acquisitions	**(317)**	(661)	(244)
Proceeds of resource property dispositions	**75**	1,075	30
Investments	**–**	(11)	(36)
Changes in non-cash working capital	**50**	105	26
Cash used in investing activities	**(2,757)**	(1,710)	(2,098)
Financing			
Long-term debt repaid	**(667)**	(791)	(1,397)
Long-term debt issued	**912**	292	1,417
Common shares purchased (net of proceeds on shares issued)	**(284)**	(184)	(184)
Common share dividends	**(114)**	(90)	(80)
Preferred securities redeemed	**(402)**	–	–
Preferred security charges	**(15)**	(38)	(42)
Deferred credits and other	**164**	28	(21)
Changes in non-cash working capital	**(10)**	–	–
Cash used in financing activities	**(416)**	(783)	(307)
Effect of translation on foreign currency cash	**(21)**	(28)	–
Net (decrease) increase in cash and cash equivalents	**(60)**	71	10
Cash and cash equivalents, beginning of year	**98**	27	17
Cash and cash equivalents, end of year	**38**	98	27

1 Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

Historical Financial Summary

(millions of Canadian dollars unless otherwise stated)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

Years ended December 31	2004	2003	2002	2001	2000	(restated) 1999	1998	1997	1996	1995
Balance Sheets										
Total assets	**12,408**	11,780	12,017	11,228	9,028	8,186	5,556	5,195	3,961	3,103
Income Statements										
Total revenue	**5,355**	4,598	4,579	4,140	3,989	1,975	1,371	1,430	1,213	899
Total expenses	**4,190**	3,609	3,478	2,814	2,402	1,513	1,751	1,239	953	805
Gain on sale of Sudan operations	**–**	296	–	–	–	–	–	–	–	–
Income (loss) before taxes	**1,165**	1,285	1,101	1,326	1,587	462	(380)	191	260	94
Taxes										
Current income tax	**478**	229	258	342	334	49	15	38	51	11
Future income tax (recovery)	**(105)**	(48)	175	84	216	116	(93)	64	82	48
Petroleum revenue tax	**129**	92	124	149	150	31	20	32	35	
	502	273	557	575	700	196	(58)	134	168	59
Net income (loss)	**663**	1,012	544	751	887	266	(322)	57	92	35
Preferred security charges, net of tax	**(9)**	(22)	(24)	(24)	(22)	(13)	–	–	–	–
Gain on redemption of preferred securities	**23**	–	–	–	–	–	–	–	–	–
Income from discontinued operations	–	–	–	–	–	–	–	–	–	6
Net income (loss) available to common shareholders	**677**	990	520	727	865	253	(322)	57	92	41

Historical Operations Summary

Years ended December 31	2004	2003	2002	2001	2000	(restated) 1999	1998	1997	1996	1995
Daily Average Production										
Total oil and liquids (bbls/d)	**228,434**	216,716	272,740	251,014	244,351	158,323	146,749	130,177	99,960	77,542
Total natural gas (mmcf/d)	**1,259**	1,090	1,036	1,010	988	904	748	658	647	650
Total (mboe/d)	**438**	398	445	419	409	309	271	240	208	186
Production (boe/share)	**0.42**	0.38	0.40	0.38	0.36	0.30	0.29	0.27	0.24	0.23
Proved reserves (boe/share)	**4.0**	3.5	3.8	3.7	2.9	2.6	2.5	2.3	1.9	1.7

Ratios and Key Indicators

(millions of Canadian dollars)

Years ended December 31	2004	2003	2002	2001	2000	(restated) 1999	1998	1997	1996	1995
Net income (loss)	**663**	1,012	544	751	887	266	(322)	57	92	35
Cash flow [1]	**2,931**	2,729	2,645	2,494	2,413	1,111	631	797	697	502
Exploration and development spending	**2,538**	2,180	1,848	1,882	1,179	996	1,145	951	557	379
Net acquisitions and (dispositions)	**242**	668	204	139	350	349	(92)	55	161	7
Debt/debt+equity (%)	**34**	31	40	42	32	38	50	45	30	36
Debt/cash flow (times)	**0.84**	0.81	1.13	1.20	0.72	1.98	3.31	2.18	1.29	1.80
Per common share										
Net income (loss) ($)	**1.77**	2.56	1.29	1.80	2.09	0.67	(0.96)	0.17	0.30	0.14
Cash flow ($) [1]	**7.65**	7.07	6.58	6.16	5.84	2.97	1.88	2.43	2.24	1.73
Average royalty rate (%)	**16**	16	17	20	18	16	14	18	16	14
Unit operating costs ($/boe)	**7.04**	6.74	6.06	5.79	5.19	5.14	5.61	5.24	3.78	3.42
Unit DD&A ($/boe)	**10.29**	9.87	8.99	8.39	7.37	7.54	6.03	6.08	5.60	5.52

1 Non-GAAP measure.

See advisories on inside back cover.

Additional Information

Accounting Principles Generally Accepted in the United States

Talisman's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("US GAAP"). A summary of the significant differences between Canadian and US GAAP are as follows:

Net income in accordance with US GAAP:

Years ended December 31 (millions of Canadian dollars, unless otherwise stated)	**2004**	2003 (restated)	2002 (restated)
Net income – Canadian GAAP	**663**	1,012	544
Reconciling items between Canadian and US GAAP	**31**	(473)	(459)
Income from continuing operations	**694**	539	85
Results of discontinued operations, net of tax	**–**	330	237
Income before cumulative effect of changes in accounting principles	**694**	869	322
Cumulative effect of changes in accounting principles, net of tax	**–**	53	–
Net income – US GAAP	**694**	922	322
Net Income per common share (Canadian dollars)			
Basic	**1.81**	2.39	0.80
Diluted	**1.78**	2.36	0.79

Comprehensive income in accordance with US GAAP:

Years ended December 31 (millions of Canadian dollars)	**2004**	2003	2002
Net income – US GAAP	**694**	922	322
Other comprehensive income, net of tax:			
Foreign exchange gain on translation of self-sustaining operations	**288**	650	170
Change in fair value of financial instrument	**(40)**	–	–
Comprehensive income – US GAAP	**942**	1,572	492

Balance sheet items in accordance with US GAAP are as follows

	2004		2003	
December 31, (millions of Canadian dollars)	**Canadian GAAP**	**US GAAP**	Canadian GAAP (restated)	US GAAP
Total liabilities and shareholders' equity	**12,408**	**12,649**	11,780	12,120

Net Production (after royalties)

	2004	2003	2002	2001	2000
Crude oil and liquids (bbls/d)					
North America	**43,303**	45,035	47,182	49,145	49,018
North Sea	**120,768**	113,291	122,231	105,138	107,554
Southeast Asia	**20,884**	14,853	14,025	14,667	13,853
Algeria	**8,338**	3,351	–	–	–
Sudan	**–**	6,997	36,346	32,422	28,001
Total oil and liquids	**193,293**	183,527	219,784	201,372	198,426
Natural gas (mmcf/d)					
North America	**715**	678	665	608	582
North Sea	**105**	103	107	97	117
Southeast Asia	**194**	110	89	89	104
Total natural gas	**1,014**	891	861	794	803
Total conventional (mboe/d)	**362**	332	363	334	332
Synthetic Oil (Canada)(mboe/d)	**2.9**	2.5	2.8	2.4	1.9
Total (mboe/d)	**365**	334	366	337	335

Directors and Executive

Board of Directors

Douglas D. Baldwin[2,3,4,6]
Calgary, Alberta, Canada
Chairman, Talisman Energy Inc.

James W. Buckee[2,5]
Calgary, Alberta, Canada
President and Chief Executive Officer
Talisman Energy Inc.

Kevin S. Dunne[3,5,6]
Tortola, British Virgin Islands
Corporate Director

Al L. Flood, C.M.[1,4]
Thornhill, Ontario, Canada
Corporate Director

Dale G. Parker[1,5]
Vancouver, British Columbia, Canada
Public Administration and Financial
Institution Advisor

Lawrence G. Tapp[3,4]
Langley, British Columbia, Canada
Chairman, ATS Automation
Tooling Systems Inc.

Stella M. Thompson[2,4,5]
Calgary, Alberta, Canada
Principal, Governance West Inc.
President, Stellar Energy Ltd.

Robert G. Welty[1,3]
Calgary, Alberta, Canada
Chairman, Chief Executive
Officer and Director
Sterling Resources Ltd.

Charles W. Wilson[1,2,6]
Evergreen, Colorado, United States
Corporate Director

1 Member of Audit Committee
2 Member of Executive Committee
3 Member of Governance and Nominating Committee
4 Member of Management Succession and Compensation Committee
5 Member of Pension Funds Committee
6 Member of Reserves Committee

Executive

James W. Buckee
President and Chief Executive Officer

Ronald J. Eckhardt
Executive Vice-President,
North American Operations

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

Joseph E. Horler
Executive Vice-President, Marketing

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

Robert M. Redgate
Executive Vice-President,
Corporate Services

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

John 't Hart
Executive Vice-President, Exploration

Corporate Information

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Investor Information

Common Shares

Transfer agent:	Computershare Trust Company of Canada Calgary, Toronto, Montreal, Vancouver
Co-transfer agent:	Computershare Trust Company Inc.
Authorized:	Unlimited number of common shares and unlimited number of first and second preferred shares
Issued:	375,185,290 common shares at December 31, 2004

Stock Exchange Listings

Common Shares

Symbol:	**TLM**
Canada:	Toronto Stock Exchange
United States:	New York Stock Exchange

Public Debt

Trustee: Computershare Trust Company of Canada
7.125% (US$) unsecured debentures
7.25% (US$) unsecured debentures
8.06% unsecured medium term notes
5.80% unsecured medium term notes

Trustee: JP Morgan Chase, London Branch
6.625% (£) unsecured notes

Talisman's public long-term debt is currently rated as:
Dominion Bond Rating Service - BBB (high);
Moody's - Baa1;
S&P - BBB+

Private Debt

6.96% (US$) unsecured notes
6.89% (US$) unsecured notes, Series B
6.68% (US$) unsecured notes

Dividends

In 2004, the Company paid semi-annual dividends in June and December each in the amount of $0.15 per common share (on a post share split basis). Talisman's dividend policy is reviewed semi-annually by the Board of Directors.

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 10:30 a.m. on Tuesday, May 3, 2005 in the Exhibition Hall, North Building of the Telus Convention Center, 136 Eighth Avenue S.E., Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to participate by voting, using one of the three available methods: (i) by telephone, (ii) by internet, or (iii) by signing and returning the form of proxy or voting instruction form mailed with the management proxy circular.

Market Information

Common Shares [1]		**2004**		2003		2002	
		TSX (C$)	**NYSE (US$)**	TSX (C$)	NYSE (US$)	TSX (C$)	NYSE (US$)
Share Price (dollars)	High	**35.10**	**28.66**	24.60	18.99	23.36	15.23
	Low	**23.68**	**17.64**	18.37	11.77	17.10	10.70
	Close	**32.35**	**26.96**	24.51	18.87	18.95	12.06
Shares Traded (millions)	First quarter	**86.2**	**23.4**	114.9	30.3	79.2	23.7
	Second quarter	**81.9**	**27.4**	78.6	24.9	84.0	25.8
	Third quarter	**81.3**	**19.2**	71.4	23.7	89.1	32.4
	Fourth quarter	**99.9**	**20.7**	79.8	25.8	153.9	46.2
	Year	**349.3**	**90.7**	344.7	104.7	406.2	128.1
Year end shares outstanding (millions)		**375**		384		393	
Weighted average shares outstanding (millions)		**383**		386		402	
Year end stock options outstanding (millions)		**20.8**		23.6		22.2	

1 Talisman divided its common shares on a 3:1 basis in May 2004.
All of the historical share numbers have been restated for comparability

Advisory – Forward-Looking Statements

This Annual Report Summary contains statements that constitute forward-looking statements within the meaning of applicable securities legislation.

Identifying Forward-Looking Statements

Forward-looking statements are included throughout this Annual Report Summary, including among other places, under the headings "A Premium Investment", "A Very Strong Year in 2004", "A Discussion with Dr. Jim Buckee", "The Business Environment", "A Well Executed and Consistent Strategy", "Talisman's Key Targets in 2005", "Financial and Operating Performance", and "Operating Areas". These statements include, among others, statements regarding:

- anticipated cash flow and cash flow per share;
- estimates of future sales, production and operations or financial performance;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- estimates of drilling and operating costs;
- business strategy and plans or budgets;
- outlook for oil and gas prices;
- anticipated liquidity, capital resources and debt levels;
- royalty rates and exchange rates;
- the merits or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results or operations or performance.

Statements concerning oil and gas reserves contained in this Annual Report Summary may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions.

Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled" "positioned", "goal", "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Material factors that could cause actual results to differ materially from those in forward-looking statements

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas, and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- general economic conditions;
- the effect of acts of, or actions against international terrorism; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

We caution that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect the Company's operations or financial results are included: (1) under the headings "Management's Discussion and Analysis – Risks and Uncertainties" and "Outlook for 2005" and elsewhere in the Company's 2004 Annual Report Financial Review; and, (2) under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2004. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission.

No obligation to update forward-looking statements

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

Abbreviations and Definitions

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
C$	Canadian dollars
FPSO	Floating Production, Storage and Offloading Vessel
LNG	Liquid Natural Gas
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmcf/d	million cubic feet per day
mmbtu	million British thermal units
mmcf	million cubic feet
Moody's	Moody's Investor Service
NYMEX	New York Mercantile Exchange
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PSC	Production Sharing Contract
S&P	Standard & Poor's Ratings Group
tcf	trillion cubic feet
TSX	Toronto Stock Exchange
UK	United Kingdom
UN	United Nations
US	United States of America
US$	United States dollar
WTI	West Texas Intermediate
£	Pounds sterling

Natural gas is converted to oil equivalent at the ratio of six mcf to one boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profits interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which the Company has a working interest. Net wells means sum of the fractional working interest owned in gross wells expressed as whole numbers and fractions thereof.

Conversion & Equivalency Factors

Imperial		Metric
1 ton	=	0.907 tonnes
1 acre	=	0.40 hectares
1 barrel	=	0.159 cubic metres
1 cubic foot	=	0.0282 cubic metres

Advisory — Reserves Data and Other Oil and Gas Information

Talisman's disclosure of reserves data and other oil and gas information is made in reliance on an exemption granted to Talisman by Canadian securities regulatory authorities, which permits Talisman to provide disclosure in accordance with US disclosure requirements. The information provided by Talisman may differ from the corresponding information prepared in accordance with Canadian disclosure standards under National Instrument 51-101 (NI 51-101). Talisman's proved reserves have been calculated using the standards contained in Regulation S-X of the U.S. Securities and Exchange Commission. U.S. practice is to disclose net proved reserves after deduction of estimated royalty burdens, including net profits interests. Talisman makes additional voluntary disclosure of gross proved reserves. Probable reserves, which Talisman also discloses voluntarily, have been calculated using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress. Further information about the differences between the U.S. requirements and the NI 51-101 requirements is set forth under the heading "Note Regarding Reserves Data and Other Oil and Gas Information" in Talisman's Annual Information Form.

The exemption granted to Talisman also permits it to disclose internally evaluated reserves data. While Talisman annually obtains an independent audit of a portion of its reserves, no independent reserves evaluator or auditor was involved in the preparation of the reserves data disclosed in this report.

Throughout this Annual Report Summary, the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil and is based on an energy equivalence conversion method. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

The reserves replacement ratio of 166% was calculated by dividing the sum of changes (revisions of estimates, improved recovery and discoveries) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production. The reserves replacement ratio of 179% was calculated by dividing the sum of changes (revisions of estimates, improved recovery, discoveries, acquisitions and dispositions) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production.

The Company's management uses reserve replacement ratios, as described above, as an indicator of the Company's ability to replenish annual production volumes and grow its reserves. It should be noted that a reserve replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries, project sanctioning and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not imbed the cost, value or timing of future production of new reserves, it cannot be used as a measure of value creation.

Advisory — Non-GAAP Financial Measures

Included in this Annual Report Summary are references to terms commonly used in the oil and gas industry such as cash flow, cash flow per share and earnings from operations. These terms are not defined by Generally Accepted Accounting Principles in either Canada or the US. Consequently, these are referred to as non-GAAP measures. Cash flow, as commonly used in the oil and gas industry, appears as a separate caption on the Company's cash flow statement and represents net income before exploration costs, DD&A, future taxes and other non-cash expenses. Cash flow is used by the Company to assess operating results between years and between peer companies with different accounting policies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance or liquidity. Cash flow per share is cash flow divided by the average number of common shares outstanding during the period. Debt to cash flow is a non-GAAP measure. Earnings from operations is calculated by adjusting the Company's net income per the financial statements, for certain items of a non-operational nature, on an after-tax basis. The Company uses this data to evaluate performance of core operational activities on a comparable basis between periods. Our reported results of cash flow, cash flow per share and earnings from operations may not be comparable to similarly titled measures by other companies.

Advisory — Earnings from Operations

To assist in understanding the Company's earnings from operations, the following table adjusts the Company's net income, per the financial statements, for certain items of a non-operational nature, on an after-tax basis. This term is not defined by Generally Accepted Accounting Principles (GAAP) in either Canada or the US. Consequently, it is referred to as a non-GAAP measure. Our reported results may not be comparable to similarly titled measures by other companies. The Company uses this data to evaluate performance of core operational activities on a comparable basis between periods.

($ millions, except per share amounts)

	Year ended	
December 31,	**2004**	2003
Net income	**663**	1,012
Gain on sale of Sudan operations 1	–	(296)
Sudan operating income 1	–	(44)
Stock-based compensation 2	**119**	130
Insurance expenses 3	**12**	–
Tax effects of unrealized foreign exchange gains on foreign denominated debt 4	**37**	32
Tax rate reductions and other 4	**(58)**	(161)
Earnings from operations 5	**773**	673
Amounts per share – basic 6	**2.02**	1.74
Amounts per share – diluted 6	**1.98**	1.72

1 On March 12, 2003, Talisman completed the sale of its indirectly held interest in the Greater Nile Oil Project in Sudan for net proceeds of $1,012 million and a gain of $296 million. During the period January 1, 2003 through March 12, 2003, the Sudan operations had after tax operating income of $44 million.

2 Stock-based compensation expense relates to the appreciated value of the Company's outstanding stock options and cash units at December 31, 2004, which was first expensed during the second quarter of 2003. The Company's stock-based compensation expense is based on the difference between the Company's share price and its stock options or cash units exercise price.

3 Insurance costs relate to the current liability associated with past claims experience that is expected to be billed in future premiums.

4 Tax adjustments include the impact of Canadian corporate tax rate reductions in 2004 and 2003, as well as future taxes relating in part to unrealized foreign exchange gains associated with the impact of a stronger Canadian dollar on foreign denominated debt.

5 This is a non-GAAP measure.

6 Per share amounts do not reflect the impact of preferred securities charges or gain on redemption of preferred securities.

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TALISMAN
ENERGY

Talisman has published a separate Annual Report Financial Review, Corporate Responsibility Report and Corporate Responsibility Summary. These reports are available by contacting the Company and can also be viewed on its website.

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