

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
mmbbls	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.