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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 mmbob 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 Discussion With Dr. Jim Buckee

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.

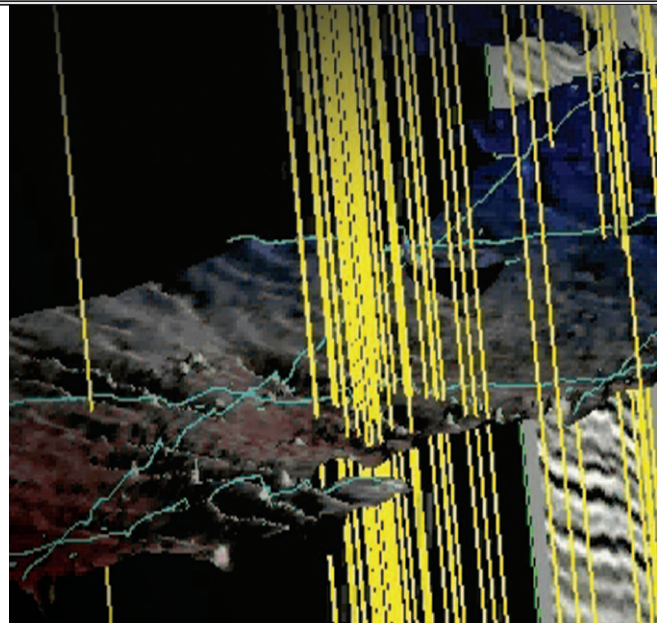
With oil prices hovering around all time highs, is there any upside? Is Talisman a good investment if oil prices fall?

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



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

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.

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
President and Chief Executive Officer

Talisman Energy Inc.

March 14, 2005