TALISMAN ENERGY

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Talisman Generates Record $1.4 Billion in Cash Flow; $583 Million in Income During First Six Months of 2001; Company Expects 20% Volume Growth in Second Half

CALGARY, ALBERTA--Talisman Energy Inc. has posted the best six-month financial results in the company's nine year history.

"On the back of these very strong financial results, Talisman will post impressive growth in production volumes in the third and fourth quarters," said Dr. Jim Buckee, President and Chief Executive Officer. "Volumes for the second quarter came in slightly below first quarter, which was stated in our last conference call. However, we hope to enter August approaching 450,000 boe/d and to reach 500,000 boe/d later this year with higher Canadian gas and North Sea oil volumes.

"Talisman's expected 20% increase in volumes should offset much of the projected decline in oil and gas prices in the second half. Based on US$25 per barrel WTI oil prices and US$3.50 per mcf NYMEX gas prices in the second half of the year, we are projecting Talisman's cash flow for 2001 to be approximately $2.8 billion, or $20-22 per share."

Second Quarter Highlights

* Cash flow of $641 million ($4.73/share), an increase of 12% versus $573 million ($4.14/share) in the second quarter of 2000. Year to date cash flow is up 23% to $1.4 billion ($10.37/share)

* Net income of $237 million ($1.71/share), an increase of 11% compared to $214 million ($1.51/share) for 2Q last year. Year to date net income is up 39% to $583 million ($4.22/share).

* Exploration and development spending during the quarter of $474 million versus $279 million a year earlier. Exploration and development spending to June 30 has totalled $848 million.

* Production of 387,000 boe/d during the quarter, compared to 415,000 boe/d a year earlier.

* Realized oil prices of $38.66/bbl in the second quarter of 2001, down 1% from the second quarter of 2000. Average natural gas prices of $5.74/mcf ($5.99/mcf in Canada), compared to $4.05/mcf ($3.96/mcf in Canada) in 2000.

* Long-term debt of $2.1 billion (0.8:1 debt to cash flow ratio based on previous 12 months).

Operational Highlights

* On June 21, 2001, Talisman announced an offer to acquire Lundin Oil AB for $529 million. The acquisition is expected to add over 50,000 boe/d of production by 2004 with the development of oil and gas properties in the "Commercial Arrangement Area" of Malaysia and Vietnam. All of Lundin Oil's current interests in Sudan and Russia will be transferred to a new company and the shares of the new company distributed to existing Lundin shareholders.

* On May 28, 2001, Talisman acquired control of Petromet Resources and on June 28 acquired all remaining shares at a cost of $823 million. The acquisition has added significant low operating cost gas volumes in Canada and in excess of 200 drilling locations.

* On June 28, 2001, Talisman announced the restart of production from the Ross field and initial production from the Blake field in the North Sea. The startup was five weeks ahead of schedule, with combined gross production anticipated to reach 80,000 bbls/d within the next week or two.

* The Beatrice field was restarted on June 27, with production expected to reach 15,000 bbls/d later in 2001.

* Talisman also announced a successful exploration well adjacent to the Ross field, testing at 2,200 bbls/d. Successful development wells were also drilled at Buchan and Clyde.

* The Company established a new Canadian natural gas production record of 840 mmcf/d for the month of June. Talisman expects Canadian production to reach 900 mmcf/d during the fourth quarter of this year.

* In Sudan, first production from the Bamboo field started in July.

* On June 29, 2001, Talisman paid its first semi-annual dividend of $0.30/share on the Company's common shares.

Management's Discussion and Analysis

This discussion and analysis should be read in conjunction with the Interim Consolidated Financial Statements. The calculation of barrels of oil equivalent (boe) is based on a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil equivalent. All comparative percentages are between the quarters ended June 30, 2001 and June 30, 2000, unless stated otherwise.

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	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Financial (millions of Canadian dollars unless otherwise stated)				
Cash flow(1)	640.9	572.7	1,404.6	1,144.1
Net income(1)	237.2	213.9	582.7	420.1
Exploration and development expenditures	474.4	278.5	848.3	517.2
Per common share (dollars)				
Cash flow(1) - Basic	4.73	4.14	10.37	8.27
- Diluted	4.64	4.07	10.18	8.17
Net income(2) - Basic	1.71	1.51	4.22	2.96
- Diluted	1.68	1.48	4.14	2.92

Production (daily average production)				
Oil and liquids (bbls/d)	224,085	252,372	232,271	245,452
Natural gas (mmcf/d)	980	978	987	1,000
Total mboe/d (6mcf equals 1boe)	387	415	397	412

1) Amounts are reported prior to preferred security charges of $10.5million ($5.9 million, net of tax) for the three months ended June 30, 2001 (2000 - $10.0 million; $5.6 million, net of tax).

2) Per common share amounts for net income and diluted net income are reported after preferred security charges.

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Cash flow for the quarter ended June 30, 2001 increased 12% to $640.9 million ($4.73/share), compared to 2000. Cash flow for the first six months was $1.4 billion ($10.37/share). Significantly higher North American natural gas prices and higher Canadian gas production were offset by reduced North Sea oil and natural gas production. Net income per share increased to $1.71, an increase of 13% over 2000. Revenues for the quarter were $1.3 billion, with crude oil and natural gas accounting for 60% and 40% of the total, respectively.

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Production (daily average production)	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Oil and liquids (bbls/d)				
Canada	66,624	66,177	66,456	65,775
North Sea	85,751	119,376	95,533	114,816
Indonesia	18,502	20,874	18,628	20,850
Sudan	53,208	45,945	51,654	44,011
	224,085	252,372	232,271	245,452
Natural gas (mmcf/d)				
Canada	792	735	791	751
North Sea	99	135	103	138
Indonesia	89	108	93	111
	980	978	987	1,000
Total mboe/d (6mcf equals 1boe)	387	415	397	412

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Total liquids production for the quarter was down 11% to 224,085 bbls/d compared to a year ago. Lower volumes in the North Sea and Indonesia were partially offset by increases in Sudan. North Sea liquids production temporarily decreased with the Ross field shut-in for modifications to the floating production vessel (FPSO), Beatrice pipeline repairs and additional maintenance shutdowns in 2001. The FPSO modifications were completed at the end of June at which time Ross was restarted and production commenced from Blake. Beatrice pipeline repairs have been completed and production also restarted. Canadian production increased slightly as a result of increased drilling and property acquisitions. Sudan production is higher due to capacity expansions and the tie in of new wells. Indonesian liquids production dropped due to natural declines.

Second quarter gas production in Canada increased 8% with record production in Greater Arch, the acquisition of Petromet Resources at the end of May 2001 and continued drilling success. North Sea gas production fell as a result of non-core property dispositions. Indonesian gas production decreased with a lower recorded interest in the Corridor PSC and the temporary reduction in sales to Caltex. Caltex sales were below the approximately 100 mmcf/d minimum take provision of the contract and accordingly $6.6 million of deferred revenue has been recorded for 2001. Talisman had been recording a 40% interest in the natural gas production of Corridor PSC. Effective January 1, 2001, the Pertamina "carry" was paid out and accordingly, Talisman's reported interest reverted to 36%.

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	Three months ended June 30		Six months ended June 30	
Netbacks	2001	2000	2001	2000
Oil and liquids ($/bbl)				
Sales price	38.66	39.03	37.57	38.21
Hedging	0.12	3.48	0.13	2.56
Royalties	8.34	7.03	7.44	6.40
Operating costs	7.45	6.27	7.19	6.36
	22.75	22.25	22.81	22.89
Natural gas ($/mcf)				
Sales price	5.74	4.05	6.99	3.57
Hedging	0.13	0.16	0.28	0.09
Royalties	1.37	0.71	1.69	0.57
Operating costs	0.62	0.45	0.60	0.47
	3.62	2.73	4.42	2.44
Total $/boe	22.32	19.93	24.36	19.54

Netbacks do not include synthetic oil and pipeline operations.

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A weakening economy has resulted in lower demand for both oil and natural gas. West Texas Intermediate (WTI) prices for the quarter averaged US $27.79/bbl compared to US $28.93/bbl a year earlier. NYMEX gas prices averaged US $4.67/mcf during the quarter, up from US $3.47/mcf a year ago but down from US $7.09/mcf in the first three months of the year.

The Canadian crude oil price in the second quarter of $33.70/bbl (2000 - $35.86/bbl) reflects lower WTI prices helped by Talisman's relatively small exposure to heavy oil. The crude oil prices in the North Sea of $40.48/bbl (2000 - $39.56/bbl) and in Indonesia of $42.81/bbl (2000 - $42.14/bbl) are consistent with the movement in the Brent and Minas oil prices, which improved relative to WTI during the quarter. The Sudan oil price averaged $40.22/bbl (2000 - $40.61/bbl) which is significantly higher than the $32.54/bbl realized in the first quarter of 2001 due to increases in the benchmark Minas price, market demand for Nile Blend crude and reduced transportation costs.

Natural gas prices increased 42% in 2001 to $5.74/mcf, with the largest increase in Canada. Canadian natural gas prices averaged $5.99/mcf in the second quarter (2000 - $3.96/mcf) an increase of 51% over the comparable quarter in 2000, but down from $9.06/mcf realized during the first quarter. North Sea natural gas prices increased 28% over the same quarter in 2000 to average $3.92/mcf due to higher spot prices. Indonesian natural gas prices dropped slightly to $5.60/mcf.

The impact of hedging decreased in 2001 due to a reduction of the volumes hedged during the quarter and an increase in the average hedge price. During the quarter, the Company entered into new hedge positions for 10,000 bbls/d of crude oil and 50 mmcf/d of natural gas for the remainder of the year at US $27.05/bbl and $8.95/mcf.

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	Three months ended June 30		Six months ended June 30	
Average royalty rates (%)	2001	2000	2001	2000
Canada	26	23	26	22
North Sea	5	4	5	4
Indonesia	20	21	20	20
Sudan	45	39	42	35

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The average Canadian royalty rate has increased with higher natural gas prices. The North Sea royalty rate increased due to the increased proportion of production from fields subject to royalty. Sudan royalties increase with higher production and crude oil prices which increase the amount of oil that reverts to the government as a result of excess cost oil and profit oil.

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	Three months ended June 30		Six months ended June 30	
Operating costs ($/boe)	2001	2000	2001	2000
Canada	4.39	3.25	4.26	3.23
North Sea	9.76	7.72	9.20	7.96
Indonesia	5.55	3.50	5.11	3.73
Sudan	3.93	3.71	3.82	3.63
	5.85	4.86	5.69	4.91

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Canadian liquids and natural gas operating costs for the quarter were $5.02/bbl and $0.68/mcf, respectively, compared to $3.85/bbl and $0.49/mcf in 2000. Canadian operating costs were impacted by higher fuel, power and third party processing costs, an increase in scheduled maintenance shutdowns and increases in joint venture costs. Canadian unit operating costs on a boe basis are expected to decrease in the third quarter as a result of lower fuel and power costs, the inclusion of a full quarter's operations of Petromet and increased natural gas volumes. North Sea unit operating costs increased due to reduced volumes and increased maintenance costs. In particular, Beatrice and Ross contributed $20 million in operating costs without any production. Unit operating costs in the North Sea are expected to decline during the third quarter as a result of the anticipated increase in volumes. Indonesian liquids operating costs increased to $8.04/bbl due to higher maintenance costs at Jambi and workovers at Tanjung and lower reported volumes. Indonesian natural gas unit operating costs increased to $0.41/mcf as a result of lower volumes. Sudan unit operating costs increased slightly over the same quarter in 2000.

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Exploration and Development Expenditures ($ millions)	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Canada	198.4	135.5	406.9	287.2
North Sea	205.9	79.3	313.7	134.7
Indonesia	17.5	17.3	34.0	23.6
Sudan	28.1	28.5	50.9	45.2
Other	24.5	17.9	42.8	26.5
	474.4	278.5	848.3	517.2

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Exploration and development expenditures nearly doubled over the same quarter in 2000 with significant increases in both Canada and the North Sea. For the first six months, drilling accounted for $226.3 million of the $406.9 million spent in Canada with natural gas accounting for the majority of spending. North Sea spending on development projects totalled $272.2 million with a significant portion related to the Blake oil field development. In Indonesia, $26.0 million has been spent on development during the first half of the year. Construction of the Corridor processing plant is expected to account for most of the Indonesian capital budget in 2001. In Sudan development continued including pipeline and central processing upgrades to increase throughput capacity.

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DDA($/boe)	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Canada	7.89	6.70	7.49	6.62
North Sea	12.01	10.40	11.55	10.34
Indonesia	6.38	5.79	6.46	5.69
Sudan	4.13	4.69	3.99	4.73
	8.33	7.66	8.10	7.57

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Depreciation, depletion and amortization (DDincreased on a per unit basis due primarily to an increase in Canada. In Canada the DDArate was up 18% due mostly to increased land costs, the addition of midstream assets and the Petromet acquisition. In the North Sea, the DDArate increased due to a change in production source. In Sudan, production increases and reserve additions reduced the unit DDAcosts.

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Taxes ($ millions)	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Current income tax	68.9	77.1	193.8	134.3
Future income tax	33.2	40.6	108.6	93.9
Petroleum revenue tax	36.3	38.1	80.3	73.7
	138.4	155.8	382.7	301.9

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Current tax in the North Sea was $30.2 million (2000 - $52.8 million) and in Sudan $14.5 million (2000 - $14.2 million). Petroleum Revenue Tax (PRT) primarily relates to the North Sea and the current quarter's decrease is as a result of lower North Sea volumes. High commodity prices accelerated the utilization of Talisman's income tax pools in Indonesia. The Indonesian current tax for the second quarter was $21.3 million (2000 - $4.6 million). In Canada, current tax for the quarter was $2.9 million (2000 - $1.8 million). Current tax in Canada was affected by the formation of the Talisman Energy Canada partnership in which substantially all Canadian operations are now conducted.

The Company's future income tax provision for the quarter and future tax liability have been reduced by $30 million as a result of a change in the Alberta corporate tax rate, effective April 1, 2001.

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Other ($ millions except where noted)	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
GA($/boe)	0.75	0.67	0.75	0.62
Net property disposition (loss) gain	7.2	1.4	6.0	8.1
Interest costs capitalized	6.6	3.7	12.4	7.4
Dry hole expense	40.5	23.3	54.7	31.4
Other revenue	17.3	24.6	42.5	46.0

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General and administrative (Gexpenses increased due to reduced volumes and higher staffing levels. Interest costs capitalized related to the Blake oil development in the North Sea. Dry hole expense rose due to an increase in exploration activities. The majority of the dry hole expense was incurred in Canada along with Sudan and Trinidad.

Long-term Debt

The Company intends to repay the balance outstanding under the Corridor Loan facility on August 8, 2001, using existing revolving bank credit facilities. At the end of the second quarter the outstanding loan balance was $119.0 million (US$ 78.4 million). The repayment of the loan will provide lower interest costs and accelerated access to cash flow from the Corridor project which had been previously restricted under the terms of the existing loan agreement. The early repayment of the loan will result in a non-cash expense being recognized in the third quarter of approximately $15.2 million due to the write-off of the deferred financing costs and foreign exchange losses.

Dividend on Common Shares

On June 29, 2001, Talisman paid its first semi-annual dividend of $0.30/share on the Company's common shares. The rate is currently intended to be $0.60 per year and will be reviewed semi-annually by the Board of Directors.

Share Repurchase

During the first six months, the Company, under a normal course issuer bid, has repurchased approximately one million common shares for a total cost of $57.2 million at an average price of $56.94/share.

Petromet Acquisition

Effective May 28, 2001, Talisman acquired all the outstanding shares of Petromet Resources Limited for $13.20/share, for a total acquisition cost of $822.9 million (including the assumption of approximately $57 million in net debt). The acquisition was financed through the use of available cash and existing credit facilities. This acquisition has increased natural gas production in Western Canada and has been accretive to cash flow. Effective June 1, 2001, Talisman combined its Canadian oil and gas operations with the operations of Petromet into Talisman Energy Canada partnership. Talisman hedged substantially all of Petromet's production for the balance of 2001, 2002 and 2003.

Lundin Oil Acquisition

In June 2001, Talisman announced a cash offer to acquire all of the outstanding common shares and warrants of Lundin Oil, a Swedish public company, for $5.27 (SEK 36.5) for each Class A and Class B share of Lundin Oil, for a total of approximately $529 million including the assumption of long-term debt and working capital. The acquisition will be financed through the use of corporate credit facilities and a bridge facility.

The acquisition creates a new core area in the Commercial Arrangement Area of Malaysia and Vietnam, increases Talisman's working interest in Brae and Claymore, as well as providing interests in other North Sea fields and an operated interest in an offshore gas field in Papua New Guinea. Lundin's interests in Sudan and Russia will not be purchased by Talisman. These interests will be transferred to a new company and the shares of the new company will be distributed to existing Lundin Oil shareholders on the basis of one share of the new company for each share held in Lundin Oil. The current management team of Lundin Oil will manage the new company. Lundin Oil has arranged to sell its interests in Libya to a third party for US$75 million prior to the completion of the acquisition by Talisman. The acquisition is expected to be completed by September 2001.

Sudan

Recent US legislative initiatives may impact companies conducting oil and gas activities in Sudan. The impact of these legislative initiatives on Talisman's Sudan operations will not be known until such time as the legislation is enacted. However, Talisman has stated it will remain in compliance with all US laws and intends to maintain access to US capital markets.

Sensitivities

Talisman's financial performance is impacted by factors such as changes in volumes, commodity prices and exchange rates. Please refer to the table in the first quarter Management's Discussion and Analysis for the estimate of the impact of these factors on 2001 financial performance.

Exploration and Operations Review

Canada

Gas production in Canada during the second quarter averaged 792 mmcf/d, an increase of 8% over the same period last year. Liquids production is unchanged from last year at 66,624 bbls/d. The increase in gas production is a result of a successful continuing 2001 exploration and development drilling program and the addition of Petromet volumes in June. Rescheduled and longer than anticipated plant turnarounds slightly offset this gain. July gas production is estimated at approximately 850 mmcf/d.

In the first half of this year, Talisman participated in 323 wells, of which 185 were operated. A total of 137 gas wells and 156 oil wells were drilled (17% above last year) with an average success rate of 91%. Talisman is currently employing 50 drilling and completion rigs, with the peak expected to reach 70 in the fourth quarter.

Drilling activity continues on the Petromet lands, with 15 wells drilled since the acquisition was announced on April 10. Five of these wells are now on production with incremental rates of 7 mmcf/d combined. In total Talisman plans to drill approximately 25 wells on Petromet lands this year. Petromet production is averaging 80 - 85 mmcf/d, which is lower than originally planned, mainly due to regulatory issues, plant downtime and bad weather in the area, which has delayed the completion and tie-in of wells.

Natural gas production in the Alberta Foothills is over 100 mmcf/d as a result of record activity levels. To date, 10 of a planned 27 (gross) wells have been drilled, with six currently on stream and two awaiting tie in. Exploration drilling has been successful in extending the areas of proven gas, offering a new suite of development projects. Chungo pipeline construction began during the second quarter and is scheduled to be completed in the fourth quarter. This project will tie in seven gas wells adding an initial 17 mmcf/d of production.

In Monkman, the Westcoast/Pine River plant turnaround normally scheduled for September occurred in May and June which reduced volumes in the quarter by approximately 8 mmcf/d. The Talisman, CNRL et al Murray River b-53-I well (Talisman 25%) tested at a rate of 36.5 mmcf/d but is currently restricted by facilities constraints. The well was brought on stream July 13 (less than two months after rig release). Agreements were finalized to drill a key "deep" Paleozoic test well on Talisman's land at W. Sukunka b-79. Talisman retains a 40% working interest in this high risk/high reward prospect. The well is scheduled to spud in late August.

The Company drilled a successful Devonian gas well in the Edson area in 2Q. The well flowed at high test rates and is currently shut-in for pressure testing.

In Chauvin, 50 wells were completed by the end of June with a 98% success rate. At present, two drilling rigs are being utilized, with a total of 135 wells planned for this year. Current production is 10% above the first quarter of this year. Two successful gas wells and three new horizontal oil wells were drilled on recently acquired Benson Petroleum lands. These wells are expected to be on production in the third quarter.

In the Greater Arch area, 53 gross wells have been drilled with a 75% success rate. Production in this quarter increased 14% over the same period last year and reached a new daily record of 225 mmcf/d.

In Ontario, Talisman continues to be a leader in long reach horizontal drilling, offering new exploration opportunities for exploiting new near offshore oil prospects. Seven offshore horizontal wells in Lake Erie have been drilled with excellent initial test rates. Three of the wells were put on production the third week of July, with a fourth expected on by month end.

Over the first half of this year, Talisman had an independent review conducted on approximately 80% of its Canadian natural gas and liquids reserves. This review has been completed and there is no material difference between the external engineering report and Talisman's reported year end 2000 Canadian reserves.

International Operational Highlights

North Sea

Oil and gas production from the North Sea was 102,000 boe/d during the second quarter, slightly less than the expected 108,000 boe/d, largely as a result of extensions to planned platform shutdowns for maintenance. However, reservoir performance and the outcome of projects in the North Sea fields continues to be very encouraging. Third quarter production is expected to be 154,000 boe/d and fourth quarter production to be 200,000 boe/d. Production at the end of July is approximately 140,000 boe/d and is expected to increase to 165,000 boe/d in early August with new wells at Clyde and Beatrice and completion of full commissioning at Blake/Ross.

At Beatrice the pipeline has been replaced and production restarted on the 27th of June, the first of three new wells is expected to start production at 5,000 bbls/d in early August.

At Buchan the first coiled tubing sidetrack well was completed in July and put on production at 5,000 bbls/d. Coiled tubing drilling from a floating facility is a world first and this well provides encouragement for further exploitation of this large under exploited field. The Hannay project is progressing well with production scheduled to start in the fourth quarter.

At the Clyde area, a new Clyde development well has been drilled and is expected to start producing at 3,000 bbls/d in early August. The Halley project first production date has slipped to December 2001 as a result of rig refurbishment delays at Fulmar.

The Ross field restarted production on the 25th of June and the Blake field started production on the 27th of June one month ahead of schedule. Production has been constrained by gas flare consents, however commissioning of the sales gas compressor is now complete and gross production could increase to over 80,000 boe/d from Blake/Ross in early August. The 13/29b-7 (NESO) exploration well was an oil discovery and tested 2,200 bbls/d. The well is located 5 km to the north of the Ross FPSO and has extended the Ross field into adjoining acreage where Talisman has a major interest.

In the Flotta Catchment Area planned shutdowns were completed on the Claymore and Tartan platforms, albeit over a longer period than planned due to weather delays on pipeline replacement and additional equipment replacement. Drilling rig enhancements continued on the Tartan and Claymore platforms. Development drilling operations will start on the Piper, Tartan and Claymore platforms in the third quarter and an exploration well will be drilled to the west of Claymore at Craigievaar. Development planning for the Lucy discovery (now officially renamed as the Kildrummy field) continued and reserves are expected to lie at the upper end of the 20 - 50 million barrel range. A major new 3D seismic survey commenced over the Flotta Catchment area. The survey will cover approximately 2,770 square kilometres and at the end the second quarter the survey was 41% complete.

Indonesia

At Ogan Kommering the first phase drilling program for 2001 has added 1,400 bbls/d (gross) and identified further locations which will be drilled later in 2001. At Tanjung, production has been maintained in excess of 6,000 bbls/d net to Talisman through a program of well stimulation.

At Corridor the development projects for Sumpal and Suban fields continued on schedule. The Suban-6 appraisal well confirmed the extension of the Batu Raja Reef encountered in Suban-4 into the central fault block of the Suban field, which may result in a substantial increase in reserves. Preparations to test Suban-6 and drill Suban-7 are underway.

Sudan

Production in the second quarter was 53,208 bbls/d net to Talisman. Debottlenecking of the central processing facilities was completed and additional pumps will be installed on the pipeline such that gross production capacity should exceed 230,000 bbls/d by year end.

The Bamboo field started production in July and start up of the Khairat NE field is imminent. During the quarter 13 wells were drilled of which 12 were successful. A production test of the Kaikang well in Block 4 was successful and tested 2,200 bbls/ d.

Algeria

Two successful development wells (MLN-7 and MLN-8) were drilled in the MLN field. In addition to the primary reservoir targets (TAGI and F1), a new Strunian F2 reservoir was discovered and is under evaluation.

The development planning for the MLN field is in progress with completion of the front-end engineering and design work for the facilities. Following this work, bids were invited for the EPC contract for the MLN facilities and infrastructure. This contract is expected to be awarded in the third quarter of 2001. First production is expected in first quarter of 2003.

The Exploitation Licence Applications for four oil fields (MLN-3/6, MLC, MLNW and MLW) adjacent the MLN field are nearing completion and expected to be submitted to the government for approval in the third quarter of 2001.

Trinidad

In offshore Trinidad Block 2(ab) the Spitfire-1 well, was abandoned. The well encountered Tertiary sands with non-commercial hydrocarbon shows. After release, the rig was moved to the Kairi-1 location in Block 2(c). Talisman and partners are currently drilling the Kairi-1 exploratory well to evaluate the extension of the earlier Angostura and Aripo discoveries.

Colombia

In Colombia, Talisman is building an exploration portfolio in the eastern Andean fold and thrust belt. As operator, Talisman is preparing to acquire 100 km 2D seismic data on the Acevedo Block in the Upper Magdalena Valley. Also, in the May ECOPETROL bidding round, Talisman was successful in obtaining a 30% non-operated interest in the Macaguan and Mundo Nuevo blocks in the prolific Llanos Foothills trend.

Talisman Energy Inc. is the largest independent Canadian oil and gas producer with operations in Canada, the North Sea, Indonesia and Sudan. Talisman is also conducting exploration in the United States, Algeria, Trinidad and Colombia. Talisman has adopted the International Code of Ethics for Canadian Business and is committed to maintaining high standards of excellence in corporate citizenship and social responsibility wherever it does business. The Company's shares are listed on The Toronto Stock Exchange in Canada and the New York Stock Exchange in the United States under the symbol TLM.

This press release contains "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995, including estimates of future production and cash flows, business plans for drilling and exploration, the estimated amounts and timing of capital expenditures, the assumptions upon which estimates are based, and other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance (often, but not always, using words such as "expects", "anticipates", "plans", "estimates", or "intends", or stating that certain actions, events or results "may", or "will" be taken, occur or be achieved). 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, reflected in the statements. These risks include, but are not limited to: the risks of the oil and gas industry (for example, operational risks in exploring for, developing and producing crude oil and natural gas; risks and uncertainties involving geology of oil and gas deposits; the uncertainty of reserve estimates the uncertainty of estimates and projections relating to future production, costs and expenses; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; and health, safety and environmental risks); uncertainties as to the availability and cost of financing; risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action in countries such as Indonesia, Sudan, Algeria or Colombia); the effect of United States sanctions against Sudan; fluctuations in oil and gas prices and foreign currency exchange rates; and the possibility that government policies may change or governmental approvals may be delayed or withheld. Additional information on these and other factors which could affect the Company's operations or financial results are included in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission. 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.

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Talisman Energy Inc.

Highlights

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Financial				
(millions of Canadian dollars unless otherwise stated)				
Cash flow	640.9	572.7	1,404.6	1,144.1
Net income	237.2	213.9	582.7	420.1
Exploration and development expenditures	474.4	278.5	848.3	517.2
Per common share (dollars)				
Cash flow (1)	4.73	4.14	10.37	8.27
Net income (2)	1.71	1.51	4.22	2.96
Production				
(daily average production)				
Oil and liquids (bbls/d)				
Canada	63,529	63,649	63,522	63,243
North Sea	85,751	119,376	95,533	114,816
Indonesia	18,502	20,874	18,628	20,850
Sudan	53,208	45,945	51,654	44,011
Synthetic oil	3,095	2,528	2,934	2,532
Total oil and liquids	224,085	252,372	232,271	245,452
Natural gas (mmcf/d)				
Canada	792	735	791	751
North Sea	99	135	103	138
Indonesia	89	108	93	111
Total natural gas	980	978	987	1,000
Total mboe/d	387	415	397	412
Prices (3)				
Oil and liquids ($/bbl)				
Canada	33.70	35.86	34.42	36.11
North Sea	40.48	39.56	39.66	38.93
Indonesia	42.81	42.14	40.51	39.93
Sudan	40.22	40.61	36.51	38.53
Crude oil and natural gas liquids	38.66	39.03	37.57	38.21
Synthetic oil	42.54	41.56	42.96	41.58
Total oil and liquids	38.71	39.05	37.64	38.24
Natural gas ($/mcf)				
Canada	5.99	3.96	7.51	3.38
North Sea	3.92	3.07	4.66	3.12
Indonesia	5.60	5.77	5.15	5.40
Total natural gas	5.74	4.05	6.99	3.57
Total ($/boe) (includes synthetic)	36.93	33.26	39.43	31.42

(1) Cash flow per common share is calculated before deducting preferred security charges.
(2) Net income per common share is calculated after deducting preferred security charges.
(3) Prices are before hedging.

Talisman Energy Inc.
Consolidated Balance Sheets

(millions of Canadian dollars)	June 30 2001	December 31 2000
Assets		
Current		
Cash	$ -	$ 76.0
Accounts receivable	614.9	842.7
Inventories	106.1	103.3
Prepaid expenses	26.6	20.0
	747.6	1,042.0
Accrued employee pension benefit asset	53.3	52.3
Other assets	89.9	80.8
Property, plant and equipment	9,162.1	7,500.6
	9,305.3	7,633.7
Total assets	$ 10,052.9	$ 8,675.7
Liabilities		
Current		
Bank indebtedness	$ 7.9	$ -
Accounts payable and accrued liabilities	808.1	1,031.1
Income and other taxes payable	253.6	250.4
Current portion of long-term debt	65.4	30.4
	1,135.0	1,311.9
Deferred credits	25.5	44.3
Provision for future site restoration	556.8	497.6
Long-term debt	2,098.9	1,702.9
Future income taxes	2,063.3	1,455.4
	4,744.5	3,700.2
Shareholders' equity		
Preferred securities	430.6	430.6
Common shares	2,861.9	2,848.6
Contributed surplus	77.9	76.6
Retained earnings	803.0	307.8
	4,173.4	3,663.6
Total liabilities and shareholders' equity	$ 10,052.9	$ 8,675.7

See accompanying notes.
Interim statements are not independently audited.

Talisman Energy Inc.
Consolidated Statements of Income

(millions of Canadian dollars except per share amounts)	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Revenue				
Gross sales	$ 1,287.4	$ 1,163.7	$ 2,775.4	$ 2,230.1
Less royalties	290.9	226.4	613.6	391.3
Net sales	996.5	937.3	2,161.8	1,838.8
Other	17.3	24.6	42.5	46.0
Total revenue	1,013.8	961.9	2,204.3	1,884.8
Expenses				
Operating	224.5	197.7	439.5	394.6
General and administrative	26.5	25.1	53.7	46.7
Depreciation, depletion and amortization	293.7	289.2	581.7	568.0
Dry hole	40.5	23.3	54.7	31.4
Exploration	29.8	15.0	57.5	39.1
Interest on long-term debt	29.9	36.7	58.9	69.6
Other	(6.7)	5.2	(7.1)	13.4
Total expenses	638.2	592.2	1,238.9	1,162.8
Income before taxes	375.6	369.7	965.4	722.0
Taxes				
Current income tax	68.9	77.1	193.8	134.3
Future income tax	33.2	40.6	108.6	93.9
Petroleum revenue tax	36.3	38.1	80.3	73.7
	138.4	155.8	382.7	301.9
Net income	237.2	213.9	582.7	420.1
Preferred security charges, net of tax	5.9	5.6	11.6	11.1
Net income available to common shareholders	$231.3	$208.3	$571.1	$409.0
Per common share (dollars)				
Net income	$1.71	$1.51	$4.22	$2.96
Diluted net income	1.68	1.48	4.14	2.92
Average number of common shares outstanding (millions)				
Basic	135.4	138.3	135.4	138.3
Diluted	138.0	140.7	138.0	140.0

Consolidated Statements of Retained Earnings

(millions of Canadian dollars)	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Retained earnings, beginning of period	$619.0	$(264.5)	$307.8	$212.2

Net income	237.2	213.9	582.7	420.1
Adoption of new income tax accounting policy	-	-	-	(670.4)
Common share dividends	(40.6)	-	(40.6)	-
Purchase of common shares	(6.7)	-	(35.3)	(7.0)
Preferred security charges, net of tax	(5.9)	(5.6)	(11.6)	(11.1)
Retained earnings (deficit), end of period	$803.0	$(56.2)	$803.0	$(56.2)

Talisman Energy Inc.
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Three months ended June 30 2001	2000	Six months ended June 30 2001	2000
Operating				
Net income	$ 237.2	$ 213.9	$ 582.7	$ 420.1
Items not involving current cash flow	373.9	343.8	764.4	684.9
Exploration	29.8	15.0	57.5	39.1
Cash flow	640.9	572.7	1,404.6	1,144.1
Changes in non-cash working capital	2.3	139.7	(3.6)	157.3
Cash provided by operating activities	643.2	712.4	1,401.0	1,301.4
Investing				
Corporate acquisitions	(769.7)	-	(769.7)	-
Capital expenditures				
Exploration, development and corporate	(486.2)	(277.6)	(863.1)	(516.9)
Acquisitions	(2.9)	(3.5)	(130.7)	(304.4)
Proceeds of resource property dispositions	18.7	16.1	24.1	39.3
Changes in non-cash working capital	(69.8)	(688.3)	(3.1)	(360.8)
Cash used in investing activities	(1,309.9)	(953.3)	(1,742.5)	(1,142.8)
Financing				
Long-term debt repaid	(770.6)	(580.8)	(1,154.8)	(1,193.5)
Long-term debt issued	1,144.6	859.4	1,513.8	1,039.4
Common shares (purchased) issued	(3.1)	23.4	(20.7)	7.0
Common share dividends	(40.6)	-	(40.6)	-
Preferred security charges	(10.5)	(10.0)	(20.7)	(19.8)
Deferred credits and other	3.5	(10.0)	(19.2)	4.9
Changes in non-cash working capital	0.6	-	(0.2)	0.2
Cash provided by (used in) financing activities	323.9	282.0	257.6	(161.8)
Net (decrease) increase in cash	(342.8)	41.1	(83.9)	(3.2)
Cash, beginning of period	334.9	9.7	76.0	54.0

Cash (bank indebtedness), end of period	$ (7.9)	$ 50.8	$ (7.9)	$ 50.8

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular amounts in millions of Canadian dollars ("$") except as noted)

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The Interim Consolidated Financial Statements of Talisman Energy Inc. ("Talisman" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. Certain information and disclosures normally required to be included in notes to annual consolidated financial statements has been condensed or omitted. The Interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto in Talisman's Annual Report for the year ended December 31, 2000.

SIGNIFICANT ACCOUNTING POLICIES

The Interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the Consolidated Financial Statements for the year ended December 31, 2000.

SHARE CAPITAL

Talisman's authorized share capital consists of an unlimited number of common shares without nominal or par value and first and second preferred shares. No preferred shares have been issued.

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Continuity of common shares	2001	
	Shares	Amount
Balance at January 1, 2001	135,344,045	$ 2,848.6
Issued upon exercise of stock options	1,152,940	36.5
Purchased and cancelled during period	(1,011,900)	(21.4)
Cancelled pursuant to terms of Plans of Arrangements	(87,361)	(1.8)
Balance at June 30, 2001	135,397,724	2,861.9

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During the six months ended June 30, 2001 Talisman repurchased 1,011,900 common shares of the Company pursuant to a normal course issuer bid renewed in February, 2001 for a total cost of $ 57.2 million. Talisman may repurchase up to 6,751,897 common shares representing 5% of the outstanding common shares of the Company at the time the normal course issuer bid was renewed.

Talisman has cancelled 87,361 common shares of the Company pursuant to the terms of the offering agreements of certain past corporate acquisitions. As a result of the cancellation of these shares $1.8 million has been credited to contributed surplus.

Talisman has stock option plans that allow employees and directors to receive options to purchase common shares of the Company.

Options granted under the plans are generally exercisable after three years and expire ten years after the grant date. Option exercise prices approximate the market price for the common shares on the date the options are issued.

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Continuity of stock options 2001

	Number Of Options	Average Exercise Price
Outstanding at January 1, 2001	6,854,806	$ 33.84
Granted	2,174,820	58.54
Exercised	1,152,940	31.65
Expired	51,250	38.81
Outstanding at June 30, 2001	7,825,436	41.00
Exercisable at June 30, 2001	3,032,122	34.84

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PETROMET ACQUISITION

In May, 2001, Talisman acquired all of the issued common shares of Petromet Resources Limited, an oil and gas exploration and development company, for $765.9 million and long-term debt assumed of $57.0 million. The acquisition has been accounted for using the purchase method and the results have been included in these financial statements from the date of acquisition.

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Net Assets Acquired

Property, plant and equipment	$ 1,301.6
Inventory	3.0
Net non-cash working capital	(1.1)
Future income tax	(476.8)
	826.7
Less acquisition costs	(3.8)
	$ 822.9

/T/

The allocation of the purchase price has been done on a preliminary basis.

SUBSEQUENT EVENT

In July 2001, Talisman made a cash offer to acquire all of the outstanding common shares and warrants of Lundin Oil for $5.27 (SEK 36.5) for each Class A and Class B share of Lundin Oil for a total of approximately $529 million including the assumption of long-term debt and working capital. Lundin's interests in Sudan and Russia will not be purchased by Talisman and Lundin's interests in Libya are to be sold to a third party for US$75 million prior to the close of the acquisition by Talisman. The acquisition is expected to be completed by September 2001 and is conditional upon the receipt of not less than 90% of the outstanding shares of Lundin Oil, the sale of the Libyan assets and receipt of all necessary governmental and regulatory approvals. The Board of Directors of Lundin Oil has recommended acceptance of the offer by the Lundin Oil shareholders and warrantholders.

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Talisman Energy Inc.
Segmented Information

(millions of Canadian dollars)	Canada	North Sea	Indonesia	Sudan	Other	Total
Three months ended June 30, 2001						
Total revenue	$ 471.7	$ 342.3	$ 94.1	$ 105.8	$(0.1)	$1,013.8
Segmented expenses	237.7	236.1	40.9	58.7	8.4	581.8
Segmented income (loss)	234.0	106.2	53.2	47.1	(8.5)	432.0
General and administrative expense						26.5
Interest on long-term debt						29.9
Income before taxes						$ 375.6
Three months ended June 30, 2000						
Total revenue	$ 340.6	$ 429.3	$ 102.8	$ 89.2	$ -	$ 961.9
Segmented expenses	186.5	266.6	33.7	36.0	7.6	530.4
Segmented income (loss)	154.1	162.7	69.1	53.2	(7.6)	431.5
General and administrative expense						25.1
Interest on long-term debt						36.7
Income before taxes						$ 369.7
Six months ended June 30, 2001						
Total revenue	$1,073.2	$ 756.9	$ 178.2	$ 196.1	$(0.1)	$2,204.3
Segmented expenses	480.5	447.9	72.3	105.0	20.6	1,126.3
Segmented income (loss)	592.7	309.0	105.9	91.1	(20.7)	1,078.0
General and administrative expense						53.7
Interest on long-term debt						58.9

Income before taxes	$ 965.4

Six months ended June 30, 2000

Total revenue	$ 664.4	$ 840.4	$ 198.7	$ 179.8	$ 1.5	$1,884.8
Segmented expenses	381.5	512.7	69.3	71.7	11.3	1,046.5
Segmented income (loss)	282.9	327.7	129.4	108.1	(9.8)	838.3
General and administrative expense						46.7
Interest on long-term debt						69.6
Income before taxes						$ 722.0

Segmented assets	$5,413.0	$2,880.7	$ 703.6	$798.5	$134.3	$9,930.1
Corporate assets						122.8
Total assets at June 30, 2001						$10,052.9

Segmented assets	$4,057.1	$2,873.1	$ 714.4	$824.6	$101.4	$8,570.6
Corporate assets						105.1
Total assets at December 31, 2000						$8,675.7

Talisman Energy Inc.
Product Netbacks

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Canada				
Oil and liquids ($/bbl)				
Sales price	33.70	35.86	34.42	36.11
Hedging	0.12	3.52	0.13	2.56
Royalties	7.58	8.48	7.82	8.35
Operating costs	5.02	3.85	4.97	3.85
	20.98	20.01	21.50	21.35
Natural gas ($/mcf)				
Sales price	5.99	3.96	7.51	3.38
Hedging	0.17	0.20	0.35	0.11
Royalties	1.64	0.88	2.05	0.70
Operating costs	0.68	0.49	0.65	0.49
	3.50	2.39	4.46	2.08
North Sea				
Oil and liquids ($/bbl)				
Sales price	40.48	39.56	39.66	38.93
Hedging	0.13	3.46	0.14	2.56

Royalties	1.80	1.73	1.91	1.47
Operating costs	11.31	8.82	10.43	9.02
	27.24	25.55	27.18	25.88
Natural gas ($/mcf)				
Sales price	3.92	3.07	4.66	3.12
Hedging	-	-	-	-
Royalties	0.23	0.12	0.21	0.10
Operating costs	0.29	0.30	0.40	0.44
	3.40	2.65	4.05	2.58
Indonesia				
Oil and liquids ($/bbl)				
Sales price	42.81	42.14	40.51	39.93
Hedging	0.12	3.53	0.13	2.56
Royalties	12.73	13.38	12.28	12.51
Operating costs	8.04	4.71	7.47	5.10
	21.92	20.52	20.63	19.76
Natural gas ($/mcf)				
Sales price	5.60	5.77	5.16	5.40
Hedging	0.01	0.05	0.02	0.04
Royalties	0.27	0.27	0.25	0.26
Operating costs	0.41	0.35	0.38	0.36
	4.91	5.10	4.51	4.74
Sudan				
Oil ($/bbl)				
Sales price	40.22	40.61	36.51	38.53
Hedging	0.12	3.45	0.12	2.56
Royalties	18.28	15.86	15.45	13.57
Operating costs	3.93	3.71	3.82	3.63
	17.89	17.59	17.12	18.77
Total Company				
Oil and liquids ($/bbl)				
Sales price	38.66	39.03	37.57	38.21
Hedging	0.12	3.48	0.13	2.56
Royalties	8.34	7.03	7.44	6.40
Operating costs	7.45	6.27	7.19	6.36
	22.75	22.25	22.81	22.89
Natural gas ($/mcf)				
Sales price	5.74	4.05	6.99	3.57
Hedging	0.13	0.16	0.28	0.09
Royalties	1.37	0.71	1.69	0.57
Operating costs	0.62	0.45	0.60	0.47
	3.62	2.73	4.42	2.44

Netbacks do not include synthetic oil or pipeline operations.

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Talisman Energy Inc.

Consolidated Financial Ratios

The following financial ratios are provided in connection with the Company's continuous offering of medium term notes pursuant to the short form prospectus dated April 7, 2000 and a prospectus supplement dated April 10, 2000, and are based on the corporation's consolidated financial statements that are prepared in accordance with accounting principles generally accepted in Canada.

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The asset coverage ratios are calculated as at June 30, 2001. The interest coverage ratios are for the 12 month period then ended.

	June 30 2001	
Interest coverage (times)		
Income	12.32	(1)
Cash flow	21.87	(2)
Asset coverage (times)		
Before deduction of future income taxes and deferred credits	4.25	(3)
After deduction of future income taxes and deferred credits	2.99	(4)

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(1) Net income plus income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

(2) Cash flow plus current income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

(3) Total assets minus current liabilities; divided by long-term debt.

(4) Total assets minus current liabilities and long-term liabilities excluding long-term debt; divided by long-term debt.

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