

**Talisman Resources (Gabon) Limited**  
**(formerly Paladin Resources (Gabon) Limited)**

**Directors' report and financial statements**

For the year ended 31 December 2005

Registered in England and Wales under no. 4109095



## **Directors' report**

The Directors present their report and the audited financial statements of Talisman Resources (Gabon) Limited ("the Company" or "Talisman") for the year ended 31 December 2005.

### **Principal activities**

The Company's principal activity is that of oil and gas exploration in Gabon.

### **Results and dividends**

The results of the Company are set out on page 6. The loss on ordinary activities after taxation amounted to US\$(6,842,000) (2004: nil).

The Directors do not recommend the payment of a dividend (2004: nil).

### **Business review**

3D seismic surveys across the southern and north eastern parts of the Gryphon Marin permit area (Talisman 20 per cent) were acquired in the first half of the year. These surveys are being processed and interpreted and the first exploration well was drilled in the first half of 2006.

During 2005, an agreement was signed with Devon Energy whereby Devon would earn a 45 per cent interest in the north western part of the permit by funding 90 per cent of the cost of a 3D seismic survey across the area. Talisman's interest in this area reduces from 20 percent to 15 percent under the terms of the agreement and Talisman will pay 10 per cent of the cost of the seismic survey.

The shares of Paladin Resources plc (now known as Paladin Resources Limited), the immediate parent undertaking as at 31 December 2004, were acquired by Talisman Energy Resources Limited during the year and, as a result, the name of the Company was changed from Paladin Resources (Gabon) Limited to Talisman Resources (Gabon) Limited on 19 December 2005.

### **Post balance sheet events**

The Gryphon Marine 1 (GRPM-1) exploration well, targeting the Gamba sandstone in the Dogbolter prospect spudded on 21 March and reached a total depth of 2062m. The well yielded negative results and has been plugged and abandoned.

### **Donations**

No charitable or political donations were made by the Company during the year.

### **Directors and their interests**

The Directors who held office during the year were as follows:

P Davison	(resigned 6 December 2005)
RA Franklin	(resigned 6 December 2005)
CJ McDowell	(resigned 6 December 2005)
SC Powell	(resigned 6 December 2005)
JW Buckee	(appointed 6 December 2005)
JF Craw	(appointed 6 December 2005)
DP Mithen	(appointed 6 December 2005)

MJ Sheppard (appointed 6 December 2005)  
 NJR Walker (appointed 6 December 2005)

The Directors have no direct or indirect interest in the shares or debentures of the Company or its subsidiaries during the year. All the individuals noted above, other than SC Powell, were Directors of the immediate parent undertaking, Paladin Resources plc (now known as Paladin Resources Limited), and their interests are disclosed in the financial statements of that company.

At 31 December 2005, SC Powell held no ordinary shares in Paladin Resources plc; at 31 December 2004, she held 250,000 ordinary shares of 10p each in Paladin Resources plc.

On the date of signature of this report, SC Powell holds no shares in Paladin Resources Limited.

The following table provides information in relation to awards made to SC Powell under the Long Term Incentive Plan operated by Paladin Resources plc:

Name of Director	Interest as at 1 Jan 2005	Awards made during the year	Market value of shares when award made	Awards vested during the year	Awards lapsed during the year	Interest as at 31 Dec 2005	Vesting date of outstanding awards
SC Powell	210,000	-	48.75p	(168,000)	(42,000)	-	-
	144,406	-	72.25p	(144,406)	-	-	-
	119,444	-	117.00p	(119,444)	-	-	-
	-	77,222	182.75p	(77,222)	-	-	-

On 28 March 2005, 168,000 shares vested to SC Powell, as shown in the above table.

On 18 November 2005, all the outstanding shares (341,072) vested as a result of the offer by Talisman Energy Resources Limited for the entire issued and to be issued share capital of Paladin Resources plc, as it was then known, becoming wholly unconditional. All the shares were sold to Talisman Energy Resources Limited at the offer price of 355p per share.

Details of the share options of SC Powell over the shares of Paladin Resources plc are as follows:

Name of Director	Options held at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options held at 31 Dec 2005	Exercise price	Date from which exercisable	Expiry date
SC Powell	26,761*	-	(26,761*)	-	48.3044p	-	-
	80,296^	-	(80,296^)	-	46.6665p	-	-
	72,203^	-	(72,203^)	-	71.67p	-	-
	43,865^	-	(43,865^)	-	107.67p	-	-
	15,857*	-	-	15,857*	107.67p	18 November 2005	18 January 2006

\*approved scheme

^unapproved scheme

On 20 June 2005, SC Powell exercised 50,000 unapproved options with an exercise price of 46.6665p. All the shares were sold.

On 18 November 2005, all the then outstanding share options became exercisable as a result of the offer by Talisman Energy Resources Limited of 355p per share for the entire issued and to be issued share capital of Paladin Resources plc, as it was then known, becoming wholly unconditional. The resultant exercises during the year are shown in the above table.

On 5 January 2006, SC Powell exercised 15,857 approved options with an exercise price of 107.67p. All the shares were sold to Talisman Energy Resources Limited under the terms of the offer referred to above.

Details of the share options of SC Powell under the Save As You Earn ("SAYE") Scheme administrated by Yorkshire Building Society on behalf of Paladin Resources plc are as follows:

Name of Director	Options held at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options held at 31 Dec 2005	Exercise price	Date from which exercisable	Expiry date
SC Powell	10,134	-	-	10,134	93p	18 November 2005	18 January 2006

The SAYE contract was closed as a result of the offer by Talisman Energy Resources Limited of 355p per share for the entire issued and to be issued share capital of Paladin Resources plc, as it was then known, becoming wholly unconditional. On 16 January 2006, SC Powell exercised 5,418 SAYE options at an exercise price of 93p per share and sold all the shares to Talisman Energy Resources Limited under the terms of the offer referred to above. The remaining SAYE share options (4,716) lapsed.

There were no grants or exercises of share options to or by the immediate family of SC Powell.

### **Statement of Directors' responsibilities**

The following statement is provided with a view to distinguishing for shareholders the relative responsibilities of Directors and Auditors in respect of the financial statements and should be read in conjunction with the Auditors' report.

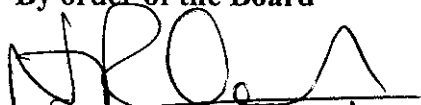
Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985, as amended. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**By order of the Board**



**N. J. R. Walker**  
*Director*

2 June 2006

**Registered Office**  
20-22 Bedford Row,  
London,  
WC1R 4JS

## **Independent Auditors' report to the members of Talisman Resources (Gabon) Limited**

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion, the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Ernst & Young LLP**

Ernst & Young LLP

Registered Auditor

London

20 June 2006

Profit and loss account  
for the year ended 31 December

	Notes	2005 US\$000	2004 US\$000
<b>Cost of sales</b>	2		
Exploration expenditure written off		(6,842)	-
<b>Gross loss</b>		(6,842)	-
<b>Loss on ordinary activities before taxation</b>		(6,842)	-
<b>Taxation on loss on ordinary activities</b>	4	-	-
<b>Retained loss for the year</b>		(6,842)	-

The results for the year relate wholly to continuing activities.

Statement of total recognised gains and losses

There are no recognised gains and losses other than the loss for the year of US\$6,842,000 (2004: nil).

**Balance Sheet***31 December*

	Notes	2005 US\$000	2004 US\$000
<b>Fixed assets</b>			
Intangible assets	5	-	589
Tangible assets	5	-	-
		-	589
<b>Current assets</b>			
Debtors	6	12,570	18,601
<b>Creditors: amounts falling due within one year</b>	7	(222)	-
<b>Net current assets</b>		12,348	18,601
<b>Total assets less current liabilities</b>		12,348	19,190
<b>Net assets</b>		12,348	19,190
<b>Capital and reserves</b>			
Called-up equity share capital	8	19,190	19,190
Profit and loss account	9	(6,842)	-
<b>Shareholders' funds - equity</b>		12,348	19,190

These financial statements were approved by the Board of Directors on 2 June 2006 and were signed on its behalf by:

**N. J. R. Walker***Director*



## Notes

*(forming part of the financial statements)*

### 1 Accounting Policies

#### ***Basis of preparation***

The financial statements have been prepared under the historical cost convention and in accordance with all applicable UK accounting standards, and accounting policies have been applied consistently. In preparing the financial statements for the current year, the Company has adopted Financial Reporting Standards No. 21 'Events after the Balance Sheet Date' (FRS 21) and No. 28 'Corresponding Amounts' (FRS 28). The adoption of FRS 21 has resulted in changes in accounting policy for dividends. Dividends proposed or declared on equity instruments after the balance sheet date are now not recognised as a liability at the balance sheet date.

FRS 18 'Accounting Policies' requires compliance with the SORP, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", issued by the Oil Industry Accounting Committee. The financial statements have been prepared in accordance with the provisions of the SORP currently in effect.

#### ***Cashflow statement***

The Company is exempt from the requirement to prepare a cash flow statement under FRS 1 as 90% or more of its voting rights are controlled within the Talisman Energy Inc. group whose consolidated financial statements are publicly available.

#### ***Related parties***

The Company has taken advantage of the 90% subsidiary exemption under FRS 8(3) not to disclose related party transactions with members of the group.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward currency contract.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

#### ***Fixed assets***

The Company follows the full cost method set out in the SORP under which expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing costs, is capitalised in cost pools on the basis of income generating units. The cost of borrowing in respect of a field development is capitalised until commencement of production from that field.

Costs relating to evaluated properties are amortised, by pool, on a unit of production basis over proven and probable reserves and changes in estimates are taken into account prospectively. Such calculation takes account of estimates of the future costs of development relating to those reserves.

Exploration and acquisition expenditure not related to commercial reserves is carried outside the full cost pool, as intangible costs, pending determination of commercial reserves or indications of impairment. Intangible costs are transferred to tangible following determination of reserves or indications of impairment.

## Notes (continued)

### 2 Profit before tax

Auditors' remuneration has been paid by the parent company on the Company's behalf.

### 3 Directors and employees

The Directors received no remuneration for their services to the Company during the year (2004: nil). The Company had no employees during the year (2004: nil).

### 4 Taxation

	2005 US\$000	2004 US\$000
<i>Current taxes:</i>		
UK corporation tax on losses for the year	-	-
Less: double taxation relief	-	-
Overseas tax on losses for the year	-	-
<i>Deferred taxes:</i>		
Overseas tax from origination and reversal of timing differences	-	-
	-	-
	-	-

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained as follows:

	2005 US\$000	2004 US\$000
Loss on ordinary activities before tax	6,842	-
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	(2,053)	-
Ineligible amounts	2,053	-
Current tax charge for the year	-	-

# Notes (continued)

## 5 Fixed Assets

	Intangible assets US\$000	Tangible assets US\$000	Total US\$000
<i>Cost</i>			
At 31 December 2004	589		589
Additions	6,253		6,253
Transfer	(6,842)	6,842	-
<b>At 31 December 2005</b>	<b>-</b>	<b>6,842</b>	<b>6,842</b>
<i>Depreciation</i>			
At 31 December 2004	-	-	-
Exploration write-off	-	6,842	6,842
Depreciation charge for the year	-	-	-
<b>At 31 December 2005</b>	<b>-</b>	<b>6,842</b>	<b>6,842</b>
<i>Net book value</i>			
<b>At 31 December 2005</b>	<b>-</b>	<b>-</b>	<b>-</b>
At 31 December 2004	-	-	589

## 6 Debtors

	2005 US\$000	2004 US\$000
Trade debtors	780	-
Amounts owed by immediate parent undertaking	11,790	18,601
	<b>12,570</b>	<b>18,601</b>

## 7 Creditors

	2005 US\$000	2004 US\$000
Trade creditors	222	-
	<b>222</b>	<b>-</b>

## 8 Share capital

	2005 US\$000	2004 US\$000
<b>Authorised</b>		
20,000,000 ordinary shares of £1 each	38,380	38,380
<b>Allotted, called up &amp; unpaid</b>		
10,000,000 ordinary shares of £1 each	19,190	19,190

Notes (continued)

**9 Reconciliation of total shareholders' funds and movement on reserves**

	<b>Share capital US\$000</b>	<b>Profit and loss account US\$000</b>	<b>Total shareholders' funds US\$000</b>
At 1 January 2004	19,190	-	19,190
Retained profit for year		-	-
<b>At 1 January 2005</b>	<b>19,190</b>	<b>-</b>	<b>19,190</b>
Retained loss for year		(6,842)	(6,842)
<b>At 31 December 2005</b>	<b>19,190</b>	<b>(6,842)</b>	<b>12,348</b>

**10 Post balance sheet event**

The Gryphon Marine 1 (GRPM-1) exploration well, which spudded on 21 March 2006, has yielded negative results and has been plugged and abandoned. The associated costs for this well have been written-off.

**11 Ultimate parent undertaking**

The Company's immediate parent undertaking is Paladin Resources Limited, a company registered in Scotland. The Company's ultimate parent undertaking is Talisman Energy Inc., an independent Canadian public company.

The parent undertaking of the smallest group of which the Company is a member and for which group financial statements are prepared is Talisman Energy (UK) Limited. The parent undertaking of the largest such group is Talisman Energy Inc.

The consolidated financial statements of Talisman Energy Inc. are available to the public and may be obtained from Talisman House, 163 Holburn Street, Aberdeen AB10 6BZ.

Notes (continued)

**9 Reconciliation of total shareholders' funds and movement on reserves**

	Share capital US\$000	Profit and loss account US\$000	Total shareholders' funds US\$000
At 1 January 2004	19,190	-	19,190
Retained profit for year		-	-
<b>At 1 January 2005</b>	<b>19,190</b>	<b>-</b>	<b>19,190</b>
Retained loss for year		(6,842)	(6,842)
<b>At 31 December 2005</b>	<b>19,190</b>	<b>(6,842)</b>	<b>12,348</b>

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