IVANHOE ENERGY INC.
654-999 Canada Place
Vancouver, British Columbia
V6C 3E1

May 29, 2008

Talisman Energy Canada
Suite 2000, 888 3rd Street S.W.
Calgary, Alberta Canada T2P 5C5

Dear Sirs:

This letter is intended to confirm the preliminary agreement reached between us whereby Ivanhoe Energy Inc. ("**Ivanhoe**") will acquire from Talisman Energy Canada ("**Talisman**") all of Talisman's right, title, estate and interest in certain oil sands interests and related assets on, and subject to, the terms set forth below.

1. Definitions. In this Agreement, the following terms have the following meanings:

"2008 Note" has the meaning set forth in subsection 3(a);

"**Approved Recovery Area**" has the meaning set forth in Section 6;

"Asset Transfer Agreement" has the meaning set forth in subsection 2(c);

"affiliate" means a Person that, directly or indirectly, through one or more intermediaries, Controls or is Controlled or is under common Control with a specified Person;

"**Back-In**" has the meaning set out in Section 5;

"**Back-In Agreement**" has the meaning set out in Section 5;

"Business Day" means a day on which Canadian chartered banks are open for banking business in the City of Vancouver;

"Closing" means the closing of the transactions contemplated by this Agreement and the Definitive Transaction Documents;

"Closing Date" means July 11, 2008, or such later date as may be mutually agreed by Ivanhoe and Talisman;

"Control" means in respect of any corporation, the ability of a Person and/or group of Persons acting jointly or in concert to elect a majority of the board of directors of such corporation, whether as a result of ownership of sufficient Voting Securities of such corporation to do so and/or as a result of agreements, arrangements or understandings with other holders of Voting Securities of such corporation;

"**Contingent Payment**" has the meaning set out in subsection 2(b)(iv);

"Convertible Note" has the meaning set forth in subsection 3(b);

"**Definitive Transaction Documents**" means the Asset Transfer Agreement, the Back-In Agreement, the 2008 Note, the Convertible Note, the Security Documents, the HTL Data Monitoring Agreement and such other documents necessary to give effect to this Agreement as may be determined by Ivanhoe and Talisman;

"**Dollars**" or "**$**" means Canadian dollars;

"HTL™ Data Monitoring Agreement" has the meaning set forth in Section 8;

"**Ivanhoe's Deemed Cost**" means the Purchase Price paid by Ivanhoe in respect of each Lease (with $2,000,000 being allocated to Lease 6, $15,000,000 being allocated to Lease 50, and the balance of the Purchase Price being allocated to Lease 10) plus all reasonable costs and expenses, including a pro rata share of internal staff costs and overhead that are directly related to the maintenance and development of the Leases, incurred by Ivanhoe from and after the Closing Date in respect of each Lease which shall not exceed what would be recoverable by an operator under a standard form 1996 PASC accounting procedure (with overhead, general and administrative expenses, and similar items not to exceed, in the aggregate, 5% of Ivanhoe's total actual out of pocket expenses incurred in direct relation to the maintenance and development of the Leases), including without limitation all reasonable expenses relating to exploration, development, reclamation, abandonment or surface access of or to the Lands governed by each Lease;

"**JOA**" has the meaning set forth in subsection 2(e);

"**Lands**" means, collectively, the lands set forth and described in the Schedule "A" and includes, unless the context otherwise requires (subject to exceptions noted in Schedule A), the petroleum substances in all zones and formations within such Lands to the extent those rights are granted by the Leases;

"Lease 6" means Alberta Crown Primary Oil Sands Lease #7405110606 located north of Fort McMurray, Alberta, as more particularly described in Schedule "A";

"Lease 10" means Alberta Crown Primary Oil Sands Lease #7401100010 located north of Fort McMurray, Alberta, as more particularly described in Schedule "A";

"Lease 50" means Alberta Crown Continued Oil Sands Lease #7281020T50 located southeast of Fort McMurray, Alberta, as more particularly described in Schedule "A";

"**Leases**" means Talisman's right, title and interest in, collectively, Lease 6, Lease 10 and Lease 50;

"Oil Sands Rights" means all of the right, title, estate and interest (whether absolute or contingent, legal or beneficial, present or future, vested or not) owned by Talisman pursuant to the Leases in or to the Lands, including without limitation any and all rights to explore for, drill for, extract, win, produce, take, save or market crude bitumen from the Lands or lands pooled or unitized therewith;

"**Miscellaneous Interests**" means all right, title, interest and estate of Talisman in and to all property, rights and assets, whether contingent or absolute, legal or beneficial, present or future, vested or not, to the extent pertaining to the Oil Sands Rights, all as will be expressly reflected in the Asset Transfer Agreement, including the following property, rights and assets:

(a) contracts, agreements, books, records and documents to the extent that they relate to the Oil Sands Rights, the Lands or the Leases;

(b) all seismic data and related information and assets in which Talisman or any affiliate of Talisman has an interest and which relate to lands located on or within 1.6 kilometers of the areas comprising the Oil Sands Rights;

(c) all rights (if any) of Talisman to enter upon, use, occupy and enjoy the surface of the Lands, any lands upon which the Wells are located and any lands used to gain access thereto, in each case, for purposes related to the use or ownership of the Oil Sands Rights, or the Wells, whether the same are held by right of way, or otherwise;

(d) all production, engineering and core information (including, digital well logs and core data), all geological, geophysical, environmental and feasibility studies and other information relating directly to the Oil Sands Rights, or the Lands that Talisman either has in its custody or to which it has access; and

(e) the Wells;

"Person" means and includes an individual, sole proprietorship, partnership, incorporated association, incorporated syndicate, incorporated organization, trust, body corporate, a trustee, executor, administrator or other legal representative and the Crown or any agency or instrumentality thereof;

"**Prime Rate**" means the rate of interest expressed as a rate per annum that the main branch of Royal Bank of Canada uses as a reference rate for calculating interest on Dollar denominated commercial demand loans made by such bank in Canada and that it refers to as its "prime rate";

"Proposed Recovery Area" has the meaning set forth in Section 6;

"Purchased Assets" means the Oil Sands Rights and the Miscellaneous Interests;

"**Purchase Price**" has the meaning set forth in subsection 2(b);

"Purchaser" means:

(a) Ivanhoe; or

(b) upon written notice by Ivanhoe to Talisman at least seven (7) Business Days prior to Closing, any of:

(i) a wholly owned subsidiary of Ivanhoe; or

(ii) a partnership of which Ivanhoe and one or more wholly owned direct or indirect subsidiaries of Ivanhoe are the only partners thereof,

provided that Ivanhoe shall remain responsible for all obligations and liabilities under this agreement and each Definitive Transaction Document and that Ivanhoe has pledged the shares of each such subsidiary to Talisman; and further provided that each such subsidiary and partnership has agreed to be jointly and severally liable with Ivanhoe for all such obligations on terms and conditions satisfactory to Talisman, acting reasonably, and has executed all required Security Documents;

"**ROFR**" has the meaning set forth in subsection 2(e);

"**ROFR Assets**" has the meaning set forth in subsection 2(e);

"**ROFR Assets Value**" has the meaning set forth in subsection 2(e);

"**Security Documents**" has the meaning set forth in Section 4;

"**Suncor Mineral Surface Lease**" means the lands in the northern edge of the area comprising Lease 10 that are subject to a mineral surface lease held by Suncor as more particularly described in Schedule "A";

"**Voting Securities**" means the common shares and all other securities of a body corporate or any successor thereto of any kind or class having power generally to vote for the election of directors; and

"**Wells**" means all core hole, exploration, producing, delineation, water source, disposal, injection and other wells located on the Lands or lands pooled or unitized therewith.

2. Purchase and Sale

(a) Purchased Assets. On the Closing Date, the Purchaser shall purchase from Talisman, and Talisman shall sell to the Purchaser, on and subject to the terms of this Agreement and the Asset Transfer Agreement, the Purchased Assets. Closing of the purchase and sale contemplated in this subsection 2(a) shall be subject to the satisfaction or waiver of the following conditions precedent:

(i) receipt of all necessary regulatory approvals, including acceptance of notice of The Toronto Stock Exchange ("**TSX**") in respect of the Convertible Note;

(ii) satisfactory completion of title, environmental and legal due diligence by Ivanhoe, acting reasonably, by no later than the earlier of July 7, 2008 and the date the Asset Transfer Agreement is executed and delivered;

(iii) no material adverse change in the physical condition of the Purchased Assets shall have occurred between the date of this Agreement and the Closing Date;

(iv) no material adverse change in the business and operations of Ivanhoe (on a consolidated basis) shall have occurred between the date of this Agreement and the Closing Date; and

(v) execution and delivery of the Definitive Transaction Documents in form and substance acceptable to Ivanhoe and Talisman, acting reasonably.

The conditions precedent in subsections 2(a)(ii) and (iii) are for the benefit of Ivanhoe, the condition precedent in subsection 2(a)(iv) is for the benefit of Talisman, and the other conditions precedent are for the benefit of both parties.

(b) Purchase Price Consideration. The purchase price (the "**Purchase Price**") for the Purchased Assets shall be payable or satisfied as follows:

(i) $30,000,000 cash to be paid by Ivanhoe to Talisman on the Closing Date;

(ii) the issuance of the 2008 Note on the Closing Date;

(iii) the issuance of the Convertible Note on the Closing Date; and

(iv) upon satisfaction of the conditions set forth in Section 6, a further payment by Ivanhoe to Talisman of $15,000,000 (the **"Contingent Payment")** subject to adjustment in accordance with Section 6.

(c) Asset Transfer Agreement. The terms and conditions relating to the purchase and sale of the Purchased Assets will be set forth in a definitive asset purchase and sale agreement that incorporates the terms of this Agreement and that are appropriate for similar commercial transactions of the size and nature of the transactions contemplated by this Agreement (the "**Asset Transfer Agreement**"), which agreement will include:

(i) provisions to the effect that the Purchased Assets can validly and effectually be transferred to Purchaser free and clear of all encumbrances created by, through or under Talisman except for standard permitted encumbrances, those acknowledged by Purchaser and those for which a registrable discharge or letter of no-interest shall be delivered at Closing;

(ii) representations and warranties of Talisman appropriate for a transaction of this nature and size including as to corporate authority, legal compliance, title (quiet enjoyment and no adverse claims created by, through or under Talisman), the absence of non-ordinary course liabilities and any litigation affecting the

Purchased Assets, environmental compliance, and other appropriate representations and warranties relating to Talisman, the Purchased Assets and the Definitive Transaction Documents;

(iii) appropriate representations and warranties of Ivanhoe including corporate authority, legal compliance, securities matters, the absence of non-ordinary course liabilities and any litigation affecting Ivanhoe or any of its subsidiaries, and other appropriate representations and warranties related to Ivanhoe, its subsidiaries and the Definitive Transaction Documents;

(iv) industry standard indemnities, including environmental indemnities respecting environmental liabilities, abandonment and reclamation obligations and other similar matters regardless whether same arose, arise or were or are incurred before, on or after the date hereof;

(v) conditions of closing, including but not limited to those set forth in subsection 2(a) above;

(vi) closing mechanics and standard deliverables, including appropriate opinions; and

(vii) the other Definitive Transaction Documents, the forms of which shall be attached as Schedules to the Asset Transfer Agreement.

(d) Taxes and Duties. The parties acknowledge and agree that Talisman will not be liable to pay any taxes (excluding Talisman income taxes), duties, sales commissions or other transfer payments in respect of the transactions contemplated herein, all of which shall be the sole responsibility of Ivanhoe.

(e) Consent and Right of First Refusal. The parties acknowledge and agree that pursuant to a Joint Operating Agreement (the "**JOA**") dated April 5, 2000, the transfer of Talisman's right, title and interest in Lease 50, the Lands governed thereby and the Miscellaneous Interests relating thereto (the "**ROFR Assets**") is subject to a consent right and a right of first refusal (the "**ROFR**") in favour of a third party, and that:

(i) Talisman shall as soon as reasonably practicable after the execution and delivery of this Agreement issue a disposition notice to the holder thereof in respect of the ROFR Assets;

(ii) the ascribed value of the ROFR Assets is $15,000,000 (the "**ROFR Assets Value**");

(iii) if the holder of the ROFR elects to exercise it in accordance with the JOA, then the definition of "Purchased Assets" will be deemed to have been amended to exclude the ROFR Assets, the amount of the cash payment in subsection 2(b)(i) and the amount of the 2008 Note will each be reduced by 50% of the ROFR Assets Value (subject to subsection 2(f)(ii) below), and the parties shall nonetheless proceed to Closing on the balance of the Purchased Assets in accordance with the terms of this agreement; and

(iv) in the event the holder of the ROFR disputes the bona fide estimate of cash value of the ROFR Assets set forth in subsection 2(e)(ii) above or such third party withholds its consent to the transfer of the ROFR Assets to the Purchaser, Talisman and Ivanhoe shall comply with the procedure set forth in Schedule "C" hereto.

(f) Indemnity. Ivanhoe shall be liable for and shall indemnify and hold harmless Talisman from and against all actions, causes of action, losses, costs, claims, damages, penalties, assessments, charges, expenses and other liabilities whatsoever, whether contractual, tortious or otherwise, which are suffered, sustained, paid or incurred by Talisman, Ivanhoe or any other person and which arise in connection with a dispute with the third party holder of the ROFR or the consent right pursuant to the JOA, including without limitation:

(i) all damages, claims, losses and costs (including all reasonable legal fees and other professional fees and disbursements) that may be suffered, sustained, paid or incurred by Talisman in connection with a dispute as to the value of the ROFR Assets; and

(ii) the difference in the value ultimately attributed to the ROFR Assets pursuant to an arbitration under the JOA (or pursuant to a settlement or any other means) and the ROFR Assets Value (which indemnification under this subsection 2(f)(ii) will be satisfied by allocating the amount of such difference amongst the balance of the Purchased Assets and paying same to Talisman) if the ROFR is exercised.

3. Promissory Notes. As part of the consideration set forth in subsection 2(b) above, at Closing Ivanhoe will deliver to Talisman:

(a) a promissory note (the "**2008 Note**") issued by Ivanhoe in favour of Talisman in the principal amount of $20,000,000 due December 31, 2008 bearing simple interest at the Prime Rate plus 2% per annum, calculated daily, with interest payable every six months from the issuance thereof, but with interest compounding daily on any missed or late payments of interest until such missed or late payments are paid, or upon earlier prepayment by Ivanhoe. The detailed terms and conditions relating to such note shall include provisions customary in standard loan agreements and will be set forth in the form of 2008 Note to be settled by Ivanhoe and Talisman on or the execution of the Asset Transfer Agreement; and

(b) a promissory note (the "**Convertible Note**") issued by Ivanhoe in favour of Talisman in the principal amount of $40,000,000 due on the date that is three years following the Closing, bearing simple interest at the Prime Rate plus 2% per annum, calculated daily, with interest payable every six months from the issuance thereof, but with interest compounding daily on any missed or late payments of interest until such missed or late payments are paid. The principal under the Convertible Note will be convertible from time to time by Talisman at any time following Closing until the date that is three years following the Closing at the option of Talisman into common shares of Ivanhoe Energy, at a conversion price of $3.13/share; accrued and unpaid interest to the date of the conversion shall be payable on converted principal. The detailed terms and conditions relating to such note shall include provisions customary in standard loan agreements, common anti-dilution provisions (to cover corporate reorganizations, stock splits and similar events affecting all holders of the common shares of Ivanhoe) and provisions in compliance with Canadian and United States securities laws and stock exchange rules, including in respect of hold periods and legending requirements, and will be set forth in the form of Convertible Note to be settled by Ivanhoe and Talisman on or before the execution of the Asset Transfer Agreement. Ivanhoe shall not have any right to prepay the Convertible Note.

4. Security. At the Closing, the 2008 Note, the Convertible Note and the Contingent Payment shall be secured by a first fixed charge and security interest in favour of Talisman against the Leases and the Purchased Assets, and a subordinate security interest in and to all other present and after-acquired property of Ivanhoe and each Purchaser, provided that such security shall not include a pledge of, or security interest in, any shares of any subsidiary of Ivanhoe (whether direct or indirect, current or future) other than the Purchaser, nor any direct security over the assets of, nor guarantees from, subsidiaries of Ivanhoe (whether direct or indirect, current or future) or other persons other than Ivanhoe or Purchaser. Within thirty (30) days of the date hereof, Ivanhoe shall provide to Talisman, all consents, releases and other documents required, or reasonably requested by Talisman, in connection with or to permit the grant of such security interests. The detailed terms and conditions relating to the foregoing security rights will be set forth in security documents to be settled by Ivanhoe and Talisman on or before the date the Asset Transfer Agreement is executed (the "**Security Documents**").

5. Back-In Rights. Under the terms of a back-in agreement to be settled by Ivanhoe and Talisman on or before the date the Assets Transfer Agreement is executed (the "**Back-In Agreement**"), Talisman will have the right (the "**Back-in**"), exercisable once per each Lease, to acquire up to a cumulative 20% undivided interest in each of Lease 6 and Lease 10, and up to a cumulative 15% undivided interest in Lease 50 (or any combination of the foregoing), until the date that is three years following Closing, subject to Ivanhoe having first complied with any right of first refusal obligations which it has assumed from, through or under Talisman pursuant to the JOA to offer all or any portion of such participating interests in Lease 50 to third parties. The Back-In purchase price shall be the corresponding percentage (i.e. if a 10% undivided interest is acquired, the corresponding percentage shall be 10%) of:

(a) if the Back-In right is exercised during the first year following Closing, at Ivanhoe's Deemed Cost;

(b) if the Back-In right is exercised during the second year following Closing, at Ivanhoe's Deemed Cost multiplied by 150%.; and

(c) if the Back-In right is exercised during the third year following Closing, at Ivanhoe's Deemed Cost multiplied by 200%,

in respect of the particular Lease or Leases for which the Back-In has been exercised. The required payment from Talisman shall be effected by first reducing any amount outstanding under the 2008 Note, and thereafter, at the election of Talisman, by way of cash payment or reduction of the amount outstanding under the Convertible Note. Any purchase and sale of a working interest in the Leases pursuant to an exercise of Talisman's rights under the Back-In Agreement shall be on the same terms and conditions, *mutatis mutandis,* as set forth in the Asset Transfer Agreement. The detailed terms and conditions relating to the Back-In rights will be set forth in the Back-In Agreement.

6. Covenants regarding Suncor Mineral Surface Lease. Following the Closing, Ivanhoe shall use its reasonable commercial efforts to obtain all necessary permits, consents and approvals, including from (as applicable) the Alberta Energy Resources Conservation Board (the "**ERCB**"), Alberta Environment and such regulatory authorities as may be required to permit the exploration, development and production from the areas of Lease 10 affected by the Suncor Mineral Surface Lease by directional drilling from pads within Lease 10 outside the Suncor Mineral Surface Lease to 750 meters across the boundary between the area comprising Lease 10 and the area comprising the Suncor Mineral Surface Lease (the "**Proposed Recovery Area**"). In the event that such permits, consents and approvals restrict or disallow access to less than all of the Proposed Recovery Area (the "**Approved Recovery Area**"), the Contingent Payment will be reduced to an amount equal to the product of: (A) $15,000,000; multiplied by (B) the Approved Recovery Area; divided by the Proposed Recovery Area. Nothing in this Section 6 shall oblige Ivanhoe to pay any non-nominal funds to non-governmental parties to acquire such access rights. The Asset Transfer Agreement will contain detailed terms and provisions relating to the foregoing covenant.

7. Right of First Offer. If, at any time during the period from Closing until three years following the Closing, Ivanhoe intends to dispose of any participating interest in any heavy oil project (excluding any interest in the Leases) in the Province of Alberta, Ivanhoe shall first make an offer to Talisman. If Talisman does not accept the offer, Ivanhoe shall be entitled to sell such interests to a third party on terms that are not more attractive to the third party than were offered to Talisman. The detailed terms and conditions relating to the foregoing will be set forth in the Back-In Agreement.

8. HTL Data Monitoring Agreement. Concurrent with the execution and delivery of the Asset Transfer Agreement, the Parties will execute and deliver an agreement granting Talisman access to certain HTL data (the "**HTL Data Monitoring Agreement**"). The primary purpose of the HTL Data Monitoring Agreement shall be to provide Talisman with the opportunity to effectively monitor the commercial effectiveness of the HTL technology generally. The HTL Data Monitoring Agreement shall grant Talisman reasonable access to HTL data available to Ivanhoe and related to (i) capital and operating costs, (ii) HTL product yields, characteristics and valuations, and (iii) byproduct energy yields. Under the terms of the HTL Data Monitoring Agreement, Talisman shall acknowledge that certain HTL data may be subject to confidentiality covenants in favour of third parties, and that disclosure of such data may be subject to the consent of such third parties and/or provision of an undertaking of confidentiality by Talisman in favour of such third parties.

The HTL Data Monitoring Agreement shall contain provisions regarding the confidentiality of the HTL data disclosed and the protection of Ivanhoe's intellectual property rights in and to the HTL data and the HTL technology, including to the effect that the HTL Data Monitoring Agreement does not confer on Talisman any right of ownership in respect of the HTL technology, right to use the HTL technology, or the right to proprietary technical information relating to the HTL process. The term of the HTL Data Monitoring Agreement shall commence on the Closing Date and continue until commissioning is complete on the first full scale commercial HTL facility, subject to earlier termination on the occurrence of certain events, including but not limited to a change of control of

Talisman. In conjunction with the HTL Data Monitoring Agreement, the parties shall extend the standstill provisions of the Confidentiality Agreement dated August 27, 2007 between Talisman and Ivanhoe.

9. Pre-Closing Covenants of Talisman.

(a) Until the Closing, Talisman covenants and agrees with the Purchaser that Talisman shall maintain in accordance with industry standards and adequately insure the Purchased Assets, including making all payments of any lease payments, fees, taxes, maintenance payments, royalties and any other payments required to preserve the Purchased Assets. Those payments shall be adjusted as of the Closing Date, such that amounts allocable to the period prior to the Closing Date will be for the account of Talisman and amounts allocable to the period after the Closing Date will be for the account of Ivanhoe.

(b) Talisman agrees to use its reasonable commercial efforts to provide access to Lease 10 (including site visits) to Ivanhoe and its contractors and other agents during the period between the date hereof and Closing so that Ivanhoe may proceed expeditiously to retain contractors and obtain permits and scout and survey potential well locations on the Lands governed by Lease 10 for the 2008/2009 drilling season.

10. Exclusivity. Upon execution of this Agreement by the Purchaser and Talisman, Talisman agrees (i) not to hold any discussions or negotiations with respect to sale, disposition or assignment of the Purchased Assets with any third party and (ii) not directly or indirectly to encourage or assist in the proposal or consummation of any transaction relating to the Purchased Assets and similar in form or substance to the transaction contemplated herein with any party other than Ivanhoe and/or the Purchaser, during the period beginning on the date hereof and ending on the earlier of (i) the date on which the Definitive Transaction Documents have been executed by each of the Parties; and (ii) the date on which this Agreement is terminated in accordance with Section 14 below.

11. Representations and Warranties of Talisman. Talisman represents and warrants to Ivanhoe as follows and acknowledges that Ivanhoe is relying upon such representations and warranties:

(a) Talisman is an Alberta general partnership, the partners of which are Talisman Energy Inc. and Petromet Resources Limited, a wholly-owned subsidiary of Talisman Energy Inc.;

(b) Talisman has the requisite power and authority to enter into this Agreement and to execute, deliver and perform its obligations under this Agreement;

(c) each of Talisman and its partners is not a non-resident for purposes of the *Income Tax Act* (Canada) ;

(d) each of the partners of Talisman is jointly and severally liable for all obligations of Talisman under this Agreement and will be jointly and severally liable for all obligations of Talisman under the Definitive

Transaction Documents when such documents are entered into;

(e) this Agreement has been duly authorized, executed and delivered by Talisman and constitutes a legal, binding and valid obligation of Talisman enforceable against Talisman and its partners in accordance with its terms; and

(f) there is no right of first refusal applicable to the Purchased Assets as a result of the disposition contemplated herein that has been created by, through or under Talisman or of which Talisman is aware, other than as set forth in the JOA.

12. Representations and Warranties of Ivanhoe. Ivanhoe represents and warrants to Talisman and acknowledges that Talisman is relying upon such representations and warranties:

(a) this Agreement has been duly authorized, executed and delivered by and constitutes a legal, binding and valid obligation of Ivanhoe enforceable against Ivanhoe in accordance with its terms; and

(b) Ivanhoe has the requisite power and authority to execute, deliver and perform its obligations under this Agreement.

13. Environmental Obligations. Ivanhoe shall accept all environmental obligations relating to the Purchased Assets whether arising before or after Closing. Ivanhoe shall provide access to the Lands to Talisman after Closing so that Talisman can complete certain reclamation activities in connection with certain core holes; provided that Talisman's reclamation activities on or in respect of the Lands that are conducted after Closing shall be at Talisman's sole risk and cost and the Asset Transfer Agreement shall contain an indemnity of Talisman in favour of Ivanhoe respecting all costs, claims, and liabilities resulting directly from such reclamation activities.

14. Covenant regarding Definitive Transaction Documents and Termination. Each of Ivanhoe and Talisman covenant and agree to use their respective reasonable commercial efforts to negotiate the Definitive Transaction Documents to the reasonable satisfaction of each of Ivanhoe and Talisman on or before July 11, 2008. Upon execution, the Definitive Transaction Documents shall supersede this agreement in its entirety. If such documentation is not concluded by July 11, 2008, this agreement, unless otherwise agreed by the parties, will thereupon terminate.

15. Notices. All notices and other communications to be given hereunder must be in writing and may be delivered personally or by facsimile transmission to the addresses set our below or such other address as a party may from time to time be notified in writing by the other party. All notices shall be deemed to have been given and received on the next business day following the date of transmission or delivery, as the case may be.

Notice to Talisman shall be addressed to:

Talisman Energy Canada c/o Talisman Energy Inc.
Suite 2000, 888 3rd Street S.W.

Calgary, Alberta
Canada T2P 5C5
Facsimile No.: (403) 237-1453
Attention: Senior Manager Corporate Projects

Notice to Ivanhoe shall be addressed to:

Ivanhoe Energy Inc.
654-999 Canada Place
Vancouver, British Columbia
Canada V6C 3E1
Facsimile No.: (604) 682-2060
Attention: Corporate Secretary

Any party may change its address for service aforesaid by notice in writing to the opposite party specifying its new address for service hereunder.

16. General Provisions.

(a) **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of Alberta and the laws of Canada applicable therein. The parties hereby irrevocably attorn to the non-exclusive jurisdiction of the courts of Alberta.

(b) **Further Assurances.** Each party shall, at the request of the other party, execute and deliver such further documents and do such further acts and things as that party may reasonably require in order to carry out the true intent and meaning of this Agreement.

(c) **Assignment.** Except as otherwise contemplated herein, neither Talisman nor Ivanhoe may set over or assign all or any part of its interest in or to this Agreement.

(d) **Enurement.** This Agreement shall enure to the benefit of and shall be binding upon the parties and their respective successors and permitted assigns as the case may be.

(e) **Fees.** Each of Talisman and Ivanhoe shall be solely responsible for payment of any costs incurred by it in the negotiation, preparation and implementation of this Agreement and the Definitive Transaction Documents, including the fees, expenses and disbursements of its financial advisors and consultants.

(f) **Entire Agreement.** The provisions of this Agreement, and the Confidentiality Agreement dated August 27, 2007 between Talisman and Ivanhoe, express and constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior communications, proposals, representations and agreements, whether oral or written, with respect to the subject matter of this Agreement.

(g) **Time of Essence.** Time is of the essence of this Agreement.

(h) **Counterparts.** This Agreement may be executed in counterparts (including by facsimile transmission), each of which when so executed shall be deemed to be an original and shall have the same force and effect as an original and such counterparts together shall constitute one and the same instrument.

(i) **Amendments.** No term or provision of this Agreement may be amended except by an instrument in writing signed by Talisman and Ivanhoe.

(j) **Survival.** The representations, warranties, covenants and agreements of Talisman and of Ivanhoe delivered pursuant hereto will survive the execution and delivery of this Agreement, for the term hereof.

(k) **Public Announcements.** If a party intends to make any public announcement or press release (either, a "**Press Release**") relating to this agreement, that party shall use reasonable commercial efforts to first give the other party 48 hours to review and comment on such Press Release, unless it is impracticable for that party to do so having regard to its legal obligations relating to timely disclosure. The party desiring to make the Press Release shall give due consideration to any comments it receives from the other party, but it shall not be required to incorporate such comments. The parties acknowledge that Ivanhoe will be issuing the press release in the form attached hereto as Schedule "B" concerning the entering into of this Agreement and the material terms thereof.

Dated the 29th day of May, 2008.

IVANHOE ENERGY INC.

BY: /s/ "*Ian S. Barnett*"
Authorized Signatory

The foregoing is hereby accepted by Talisman on the terms and conditions set forth herein as of the 29th day of May, 2008.

TALISMAN ENERGY CANADA,
by its managing partner,
Talisman Energy Inc.

BY: /s/ "*D.M. Adams*"
Authorized Signatory

SCHEDULE "A"

PURCHASED ASSETS

Lease 6

Oil Sands Lease No. 7405110606

4M R09 T090 Section: 9

Oil sands from the top of the Viking FM to the base of the Woodbend Group.

Lease 10

Oil Sands Lease No. 7401100010

4M R09 T090 Sections: Legal Subdivisions 3, 6, 11, and 14 in the East Half of Section 22; Sections 23-28; and Sections 33-36

Oil sands from the top of the Viking FM to the base of the Woodbend Group.

Lease 50

Oil Sands Lease No. 7281020T50

4M R07 T087 Sections: 13-15, 22-36

4M R07 T088 Sections: 1-11; 15-17; 20; 21

Oil sands in the Wabiskaw-McMurray Group

Suncor Mineral Surface Lease

MSL # 044435.

SCHEDULE "B"

FORM OF IVANHOE PRESS RELEASE

IVANHOE
ENERGY

May 29, 2008

Ivanhoe Energy to acquire oil sands assets from Talisman Energy

Athabasca block will be home for Ivanhoe's first integrated HTL heavy-to-light oil project

CALGARY, CANADA — Robert Friedland, Deputy Chairman of Ivanhoe Energy Inc. (TSX: IE; NASDAQ: IVAN), announced today that the company has signed a preliminary agreement with Talisman Energy Canada (Talisman) to acquire all of Talisman's interests in three leases located in the heart of the Athabasca oil sands region in the Province of Alberta, Canada. Talisman Energy Canada is an affiliate of Talisman Energy Inc. (TSX:TLM; NYSE:TLM).

The total purchase price is C$105 million, of which C$30 million is payable at closing. The transaction will see the first commercial application of Ivanhoe Energy's proprietary HTL™ heavy-oil upgrading technology in a major, integrated heavy-oil project.

Based on the most recent evaluations of the Talisman leases conducted by Sproule Associates Limited ("Sproule"), independent reservoir engineers, two of the three leases are estimated to contain, on a best estimate basis, approximately 294 million barrels of contingent bitumen resources (with low and high estimates of approximately 216 million and 394 million barrels, respectively) out of approximately 752 million barrels of discovered petroleum initially-in-place.

The proposed home for Ivanhoe Energy's initial, integrated HTL heavy-oil project will be Lease 10, near Fort McMurray. Based on estimates by Sproule of contingent bitumen resources, Lease 10 – the principal block being acquired – would be capable of producing between 30,000 and 50,000 barrels of oil per day.

Talisman will retain back in rights of up to 20% in all of the acquired leases for a period of three years. During this period, Talisman will also have the right of first offer to acquire any participation interests in heavy oil projects in Alberta that Ivanhoe wishes to sell, excluding the acquired leases, on mutually agreeable terms. In addition, in order to allow Talisman to effectively monitor the commercial effectiveness of Ivanhoe's HTL technology, Ivanhoe and Talisman will sign an HTL Data Monitoring Agreement.

"We now have achieved our initial objective," said Mr. Friedland. "We are anchoring the roll-out of our HTL heavy-oil upgrading process with a first-class, high-quality resource asset in the centre of the Athabasca oil sands region. We will now proceed full speed ahead with preparations for an integrated HTL heavy oil project on Lease 10, while at the same time progressing discussions relating to additional heavy oil opportunities in Canada and internationally".

Lease 10 to be site for Ivanhoe's first HTL integrated heavy-oil project

Ivanhoe Energy plans to establish its first commercial HTL heavy-oil project on the Lease 10 block, the principal lease to be acquired from Talisman.

Lease 10 is a 6,880-acre contiguous block located approximately 10 miles (16 km) northeast of Fort McMurray, immediately south of Suncor's operating Steepbank and Millennium projects. The block also adjoins leases held by ExxonMobil, Laricina Energy and E-T Energy. Talisman has a 100% working interest in Lease 10.

Lease 10 has a relatively high level of delineation (four wells per section). It is believed to be a high-quality reservoir and an excellent candidate for thermal recovery production using the SAGD (steam-assisted gravity drainage) process. The Lease 10 reservoir characteristics are believed by Ivanhoe to be similar to those at Petro-Canada's 30,000 barrels per day MacKay River project, nearby across the Athabasca River. MacKay River is acknowledged to be one of the most successful and longest running SAGD projects in the Athabasca oil sands.

Ivanhoe 's HTL plant on Lease 10 is projected to ultimately be capable of operating at production rates of at least 30,000 barrels per day for approximately 25 years. Ivanhoe intends to integrate established SAGD thermal recovery techniques with its patented HTL upgrading process, producing and marketing a light, synthetic sour crude.

Once this acquisition has closed, Ivanhoe will continue the Lease 10 delineation program in preparation for the submission of permits for an integrated HTL project. In general, thermal oil sands projects, including SAGD projects, require a period of initial development, including delineation, permitting and field development, which is followed by relatively stable operations for many years. Ivanhoe will provide guidance on expectations regarding development timelines, as appropriate, at a future date.

Lease 50 is a second potential HTL site

Lease 50, another lease to be acquired from Talisman, covers a 21,760 gross acre block located approximately 12 miles (19 km) southeast of Fort McMurray. The block is bordered by Imperial Oil (a subsidiary of ExxonMobil) on three sides and also is adjacent to leases owned by Opti/Nexen and Canadian Natural Resources (CNRL). Talisman has a 75% working interest in Lease 50, which is subject to a right of first refusal in favour of the holder of the remaining 25% working interest.

Although less delineated than Lease 10, based on drilling to date Ivanhoe believes that Lease 50 has the potential to host an additional integrated HTL heavy-oil project. The total plant size required to develop and produce the low, best and high estimates of the contingent resources assigned to Lease 50 has previously been estimated to be 10,000 bopd, 15,000 bopd and 25,000 bopd, respectively.

Benefits of HTL Integration

HTL is a field-located upgrading process that converts heavy oil to a transportable, partially upgraded synthetic crude oil and converts the upgrading byproducts to onsite energy. The process frees the heavy oil producer from the need to purchase diluent for transport, significantly eliminates the need to purchase natural gas to steam the reservoir, and allows the producer to capture the majority of the heavy oil-light oil value differential. The net result is enhanced rates of return and reduced earnings volatility. Furthermore, the HTL process is technically and economically scalable down to as low as 10,000-30,000 bopd, allowing for vertical integration of smaller heavy oil assets in Canada and internationally.

Transaction highlights

A binding preliminary agreement between Ivanhoe Energy and Talisman outlining the key transaction terms was entered into on May 29, 2008. The transaction, expected to close within 45 days, is subject to certain conditions, including completion of definitive transaction documentation and regulatory approval, including approval of the Toronto Stock Exchange.

Purchase details

Ivanhoe will purchase all of Talisman's interests in Leases 10, 50 and 6. The total purchase price for the three leases is C$105 million, allocated as follows:

1. C$30 million cash, due upon closing.

2. A C$20 million note, with interest at prime plus 2%, to be repaid on or before December 31, 2008.

3. A C$40 million, three-year convertible note, with interest at prime plus 2% with principal convertible at C$3.13, which represents a 25% premium to Ivanhoe Energy's share price based on the volume-adjusted, weighted average closing price for the 10 business days prior to the signing of the preliminary agreement. If the note were fully converted, 12,779,552 common shares of Ivanhoe Energy would be issued to Talisman, representing approximately 4.95% of the issued and outstanding shares of Ivanhoe Energy as of today's date after giving effect to the conversion.

4. C$15 million cash on Ivanhoe Energy receiving requisite government and other approvals to develop the northern border of Lease 10, which is subject to a Mineral Surface Lease (MSL) held by Suncor.

Ivanhoe's obligations under the notes and the contingent payment will be secured. Acquisition of Lease 50 is subject to the remaining working interest holder not exercising its right of first refusal in respect of Lease 50, in which case the purchase price would be adjusted accordingly.

Ivanhoe intends to finance the $30 million initial payment as well as future payments with funds from a combination of strategic investors and/or traditional debt and equity markets, either at the Ivanhoe Energy Inc level or project levels.

Talisman will retain back in rights of up to 20% in all of the acquired leases for a period of three years. During this period, Talisman will also have the right of first offer to acquire any participation interests in heavy oil projects in Alberta that Ivanhoe wishes to sell, excluding the acquired leases, on mutually agreeable terms. In addition, in order to allow Talisman to effectively monitor the commercial effectiveness of Ivanhoe's HTL technology, Ivanhoe and Talisman will sign an HTL Data Monitoring Agreement.

Lease details and resource estimates

Ivanhoe Energy has agreed to acquire the following leases:

a) A 100% working interest in Lease 10, a 6,880-acre oil sands lease located approximately 10 miles (16 km) northeast of Fort McMurray and immediately south of Suncor's operating Steepbank and Millennium projects.

b) A 75% working interest in Lease 50, a 21,760 gross acre oil sands lease located approximately 12 miles (19 km) southeast of Fort McMurray, adjacent to leases owned by Opti/Nexen, Imperial Oil and CNRL.

c) A 100% working interest in Lease 6, a small, 680-acre block one mile (1.6 km) south of Lease 10.

Based on the most recent evaluations conducted by Sproule, Lease 10 and Lease 50 together are estimated to contain, on a best estimate basis, approximately 294 million barrels of contingent bitumen resources (with low and high estimates of approximately 216 million and 394 million barrels, respectively). All such resource estimates have been classified as "contingent resources". Lease 6 has not been independently evaluated. The evaluation of Lease.10 has an effective date of August 31, 2007, while Lease 50 was evaluated as of July 31, 2006. The same reports estimate the discovered petroleum initially-in-place (which includes the contingent resource volumes) for Lease 10 and Lease 50, in aggregate, to be approximately 752 million barrels of bitumen on a best estimate basis. The portion of discovered petroleum initially-in-place not currently classified as contingent resources does not represent recoverable volumes.

Lease 10 is more delineated than Leases 50 and 6. Accordingly, the estimate of recoverable volumes is anticipated to have a higher degree of certainty. Of the total amount of contingent bitumen resources estimated to be contained in all three leases, Sproule has attributed, on a best estimate basis, approximately 244 million barrels of contingent bitumen resources to Lease 10 (with low and high estimates of approximately 188 million and 313 million barrels, respectively) and approximately 50 million barrels of contingent bitumen resources to Lease 50 (with low and high estimates of approximately 27 million and 81 million barrels, respectively).

The Lease 10 resource target is considered to be of high-quality McMurray sands, with clean and continuous average net pay of approximately 20 meters and no significant top or bottom water or top gas issues. The average porosity is 34%, average bitumen saturation is 79% and permeabilities are between one and 10 Darcies, all of which are considered excellent reservoir characteristics. The high quality of the asset is expected to provide for favorable projected operating costs, including attractive steam-oil ratios (SOR) using SAGD development techniques.

Based on these contingent resource estimates, Ivanhoe's acquisition price of C$105 million represents a price of approximately C$0.36 per barrel of contingent bitumen resource measured on a best estimate basis, with a range of approximately C$0.27 per barrel on a high estimate basis to approximately C$0.49 per barrel on a low estimate basis.

Financial Advisor

Tristone Capital Inc. is acting as financial advisor to Ivanhoe for this transaction.

<u>Ivanhoe Energy</u>

Ivanhoe Energy is an independent, international heavy-oil development and production company focused on pursuing long-term growth in its reserves and production using advanced technologies, including its proprietary, patented heavy-oil upgrading process (HTL). Core operations are in the United States and China, with business development opportunities worldwide. Ivanhoe Energy's shares trade on the NASDAQ Capital Market with the ticker symbol IVAN and on the Toronto Stock Exchange with the symbol IE.

On March 17, 2008, Ivanhoe Energy announced that Robert Friedland would be assuming the leadership of Ivanhoe Energy Inc. and would serve as Executive Chairman and Chief Executive Officer to guide the company through a major corporate and management restructuring in preparation for the implementation of multiple, full-scale, commercial HTL heavy-oil projects in Canada and internationally.

The restructuring is planned to enhance Ivanhoe Energy's pursuit of its central mission to develop heavy-oil assets using its HTL technology.

As part of the reorganization, Ivanhoe Energy is establishing a number of geographically focused, self-funding entities. The parent company Ivanhoe Energy Inc. will pursue HTL opportunities in the Athabasca oil sands of Western Canada and will hold and manage the core HTL technology. Two new subsidiaries will be established, one for Latin America and one for the Middle East & North Africa, complementing Sunwing Energy Ltd., Ivanhoe Energy's existing, wholly owned company for China. Dave Martin will lead the subsidiary for Latin America as Chairman and CEO, and Leon Daniel will lead the subsidiary for the Middle East & North Africa as Chairman and CEO. Ivanhoe Energy Inc. initially will own 100% of each of these subsidiaries, although the percentages would be expected to decline as they develop their respective businesses and raise capital independently.

This structure will allow the development and financing of multiple HTL projects around the world, while minimizing dilution of Ivanhoe Energy's existing shareholders. In addition, the alignment with principal energy-producing regions will facilitate financing from region-specific strategic investors, some of which already have been identified, and also will enhance flexibility in accessing global capital markets.

Building an execution team

Over recent months, Ivanhoe has made significant progress in building its execution teams in preparation for this acquisition. The upstream team consists of a number of Calgary-based, experienced heavy oil engineers and geologists hired from firms such as Petro-Canada and Synenco, complemented by a core team of petroleum engineers and geologists located in Ivanhoe's offices in Bakersfield, California, a number of which are expected to move to Calgary, Alberta in the summer of 2008. The Houston-based HTL technology team also has been strengthened. Ivanhoe expects to continue filling key positions as it moves into execution mode.

<u>Conference Call</u>

Ivanhoe Energy will host a conference call on Tuesday June 3,2008, for investors and analysts at 11:00 am EDT (8:00 am PDT) to discuss the acquisition. This conference call replaces the conference call previously scheduled for Monday June 2, 2008 as announced in our press release dated March 17, 2008.

The conference call may be accessed by dialling 1-866-540-8136 in Canada and the United States, or 1-416-340-8010 in the Toronto area and internationally. A simultaneous webcast of the conference call will be provided through www.ivanhoeenergy.com and www.newswire.ca/webcast. If you are unable to participate in the call, it will be archived for later playback by dialling 1-416-695-5800 and entering the pass code 3261239#, or via www.ivanhoeenergy.com. The archived playback will be available until July 4, 2008.

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STATEMENTS CONCERNING RESOURCES: The determination of oil and gas resources involves the preparation of estimates that have an inherent degree of associated risk and uncertainty. The estimation and classification of resources requires the application of professional judgment combined with geological and engineering knowledge to assess whether specific classification criteria have been satisfied. Statements in this press release concerning "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, of the ability to produce in the future the resources described. Actual resources and, if commenced, future production will differ from the estimates provided herein, and the difference may be significant.

Except for volumes described as "discovered petroleum initially-in-place", all bitumen resource volumes referred to in this press release have been classified as "contingent resources" within the meaning of the Canadian Oil & Gas Evaluation Handbook (COGE Handbook). The term "contingent resources" is defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent resources are further classified in accordance with the level of uncertainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

Estimates of resources, which always involve uncertainty, are quoted herein as a range according to the level of confidence associated with the estimates. The "best estimate" is considered to be the best estimate of the quantity of bitumen resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. The "low estimate" is considered to be a conservative estimate of the quantity that will be actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. The "high estimate" is considered to be an optimistic estimate of the quantity that will be actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate.

The contingencies that currently prevent the contingent resources referred to herein from being classified as reserves are a lack of regulatory approval, the absence of a firm development plan, and the uncertainty of funding approval for development. There is no certainty that it will be commercially viable to produce any portion of the contingent resources referred to in this press release.

The term "discovered petroleum initially-in-place" is equivalent to discovered resources, and is defined in the COGE Handbook to mean that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves, and contingent resources; the remainder is unrecoverable.

Cautionary Note to U.S. Investors -- The Securities and Exchange Commission (SEC) permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this press release, such as contingent bitumen resources and discovered petroleum initially-in-place that the SEC's guidelines strictly prohibit us from including in filings with the SEC. Investors are urged to also consider closely the disclosure in our Form 10-K for the fiscal year ended December 31, 2007, available from our website. You can also obtain this form from the SEC website at www.sec.gov.

The reference herein to production levels at Petro-Canada's MacKay River project is based on publicly available information. The reference herein to the similarity between the Lease 10 reservoir characteristics and those of the MacKay River project is based on Ivanhoe's internal assessment.

FORWARD-LOOKING STATEMENTS: This document includes forward-looking statements, including forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements concerning Ivanhoe Energy's preliminary agreement with Talisman to acquire all of Talisman's working interest in three oil sand leases (leases 10, 50 and 6), the conditions of the closing of the transactions contemplated by the preliminary agreement, Ivanhoe Energy's ability to obtain the financing necessary to pay the portion of the purchase price not financed by Talisman, Ivanhoe Energy's plan to establish its first integrated HTL heavy-oil project on Lese 10, the anticipated production capacity of the proposed HTL plant, the anticipated quantities of recoverable barrels of bitumen from leases 10 and 50 and other statements which are not historical facts. When use in this document, the words such as "could", "plan", "estimate", "anticipate", "intend", "may", "potential", "should", and similar expressions relating to matters that are not historical facts are forward-looking statements. Although Ivanhoe Energy believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual result to differ from these forward-looking statements include the possibility that the company will be unable to raise financing or that the conditions of the closing of the transaction are not fulfilled, the potential that the company's projects will experience technological and mechanical problems, new product development will not proceed as planned, the HTL technology to upgrade bitumen and heavy oil may not be commercially viable, samples form the Athabasca bitumen test may not have the product qualities anticipate, market acceptance of the HTL technology may not be as anticipate, Ivanhoe Energy's lack of history in developing commercial HTL opportunities, geological conditions in reservoirs may not result in commercial levels of oil and gas production, the availability of drilling rigs and other support services, uncertainties about the estimates of the reserves, the risk associates with doing business in foreign countries, environmental risks, changes in product prices, our availability to generate cash flow and raise capital as and when required, competition and other risks disclosed in Ivanhoe Energy's Annual Report on Form 10-K files with the U.S. Securities and Exchange Commission on EDGAR and the Canadian Securities Commissions on SEDAR.

SCHEDULE "C"

ESCROW AND VALUATION PROCEDURES AND MECHANICS

REDACTED: Schedule contains terms relating to procedures and Purchase Price adjustments in the event the holder of the ROFR disputes the bona fide estimate of cash value of the ROFR Assets set forth in subsection 2(e)(ii) of the Agreement or such holder withholds its consent to the transfer of the ROFR Assets to the Purchasers.