TALISMAN MINING LTD

ABN 71 079 536 495

ANNUAL REPORT 2010

CORPORATE DIRECTORY

DIRECTORS

Mr Alan Senior	Non Executive Chairman
Mr Gary Lethridge	Managing Director
Mr Peter Langworthy	Technical Director
Mr Brian Dawes	Executive Director
Ms Karen Gadsby	Non Executive Director

COMPANY SECRETARY

Mr Daniel Madden

REGISTERED & PRINCIPAL OFFICE

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Perth, Western Australia 6000

ASX Codes: TLM, TLMO

CONTENTS

TALISMAN MINING LTD

LETTER FROM THE CHAIRMAN

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to present to you the Company's 2010 Annual Report.

Talisman has benefited greatly from having the senior executive team of Gary Lethridge, Peter Langworthy and Brian Dawes in place for the full year (following the appointment of Peter and Brian in June 2009) and their depth of management expertise and industry knowledge has resulted in the implementation of a rejuvenated corporate strategy focusing upon the achievement of 'quality first' growth and shareholder returns.

During the year the primary focus of this strategy has been the consolidation of a series of high-quality projects across the Bryah Basin in Western Australia which are prospective for the discovery of volcanogenic massive sulphide (VMS) copper-gold mineralisation similar to Sandfire Resources NL's nearby DeGrussa discovery.

The Company's portfolio of exploration projects in the Bryah Basin now covers a total area of 736km^2 and has enabled the Company to adopt a strategic regional approach to exploration and develop a pipeline of exploration targets within the prospective Bryah Basin.

Significant activities and achievements of the Company during the past year include:

- The completion of a first pass reconnaissance drilling program with encouraging results at the highly prospective Springfield copper/gold project which lies immediately along strike from Sandfire Resources Limited's DeGrussa deposits;
- Establishment of over 40kms of the prospective Narracoota Volcanic Formation extending over three corridors across the Springfield project;
- Development of other Bryah Basin projects including the acquisition of the Halloween project in December 2009 and the securing of three Exploration Licenses at the Shelby Project;
- Ongoing investigation of value realisation initiatives at the Wonmunna Iron Ore Project;
- Farm-out of manganese exploration projects in the East Pilbara region of Western Australia to manganese specialist Shaw River Resources;
- A significant capital raising of $9.5 million in February 2010 at an issue price of 90 cents per share; and
- The review and assessment of the Company's existing exploration portfolio.

The Company had available cash reserves at 30 June 2010 of $13.6 million and remains debt free. This strong cash backing provides adequate support for the continued vigorous exploration activities at the Springfield project (second drilling campaign commenced August 2010) and the planned activities at other Bryah Basin projects (Halloween, Shelby and Milgun). The Company continues to actively look for other high quality exploration growth opportunities.

We remain committed and well placed to progress our corporate goal of creating a quality Australian mining and exploration company focused on generating profits and shareholder returns.

Finally, I wish to thank our employees for their hard work and commitment and I look forward to their continued support over the next twelve months.

Yours faithfully

Alan Senior
Chairman

REVIEW OF OPERATIONS

EXPLORATION STRATEGY

The past 12 months has seen Talisman consolidate and advance its position within the highly prospective Bryah Basin of Western Australia and also identify a number of lower priority projects for relinquishment.

Talisman's exploration strategy for the 2010-2011 year is to:

- Actively explore for high-grade copper-gold VMS Deposit at the Company's Springfield Project;
- Advance other copper-gold VMS project opportunities within the Bryah Basin in order to better understand their longer term prospectivity;
- Continue to seek new quality advanced project opportunities for acquisition and exploration upside. Commodities targeted are particularly Favoured commodities targeted are copper-gold, nickel sulphide and gold.

PROJECTS

BRYAH BASIN COPPER-GOLD PROJECTS

Talisman has developed a strong pipeline of high-quality drilling targets for 2010-2011 which are prospective for the discovery of volcanogenic massive sulphide (VMS) copper-gold mineralisation similar to Sandfire Resources NL's nearby DeGrussa discovery (10.67 Mt @ 5.6% Cu, 1.9g/t Au and 15g/t Ag, as at 3 Septemebr 2010).

Through a combination of project acquisition and evaluation of its existing tenements, Talisman has now consolidated an extensive portfolio of exploration projects across the Bryah Basin covering a total area of 736km2 (see figure 1). This will enable the Company to adopt a strategic regional approach to exploration across the Bryah Basin and develop a deep pipeline of exploration targets.

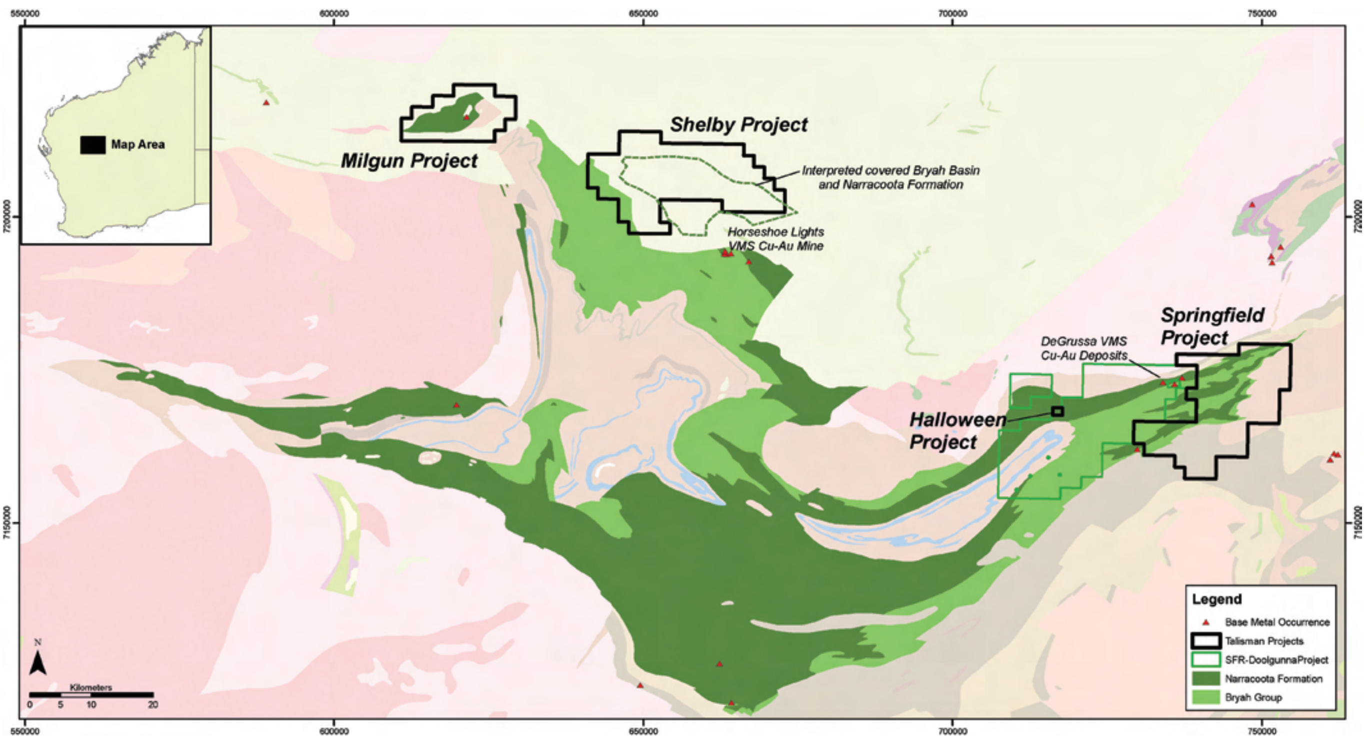

Figure 1 – Bryah Basin Project Location Plan

SPRINGFIELD PROJECT (Cu-Au)

(100% Talisman Mining Ltd)

The Springfield Project comprises a 303km^2 ground package of granted exploration licences located approximately 150km north east of Meekatharra in the northern Murchison Goldfields of Western Australia (see figure 2).

The ongoing demonstration of the excellent prospectivity of the Springfield Project continues with the announcement by Sandfire Resources of a substantial resource increase of the combined DeGrussa Deposits. The updated resource now stands at ***10.67 Mt @ 5.6% Cu, 1.9g/t Au and 15g/t Ag*** (as at 3 September 2010). In addition to this substantial, high grade resource, Sandfire continues to announce the discovery of new high grade copper-gold VMS deposits within the prospective geological corridor.

This growth of the Sandfire resource and the continuing exploration success clearly demonstrate that the size of the VMS system in this region is strengthening. The strength, size and grade of this VMS system support the view that the immediate potential within Talisman's Springfield Project, located as little as 4km to the east of DeGrussa, is very high.

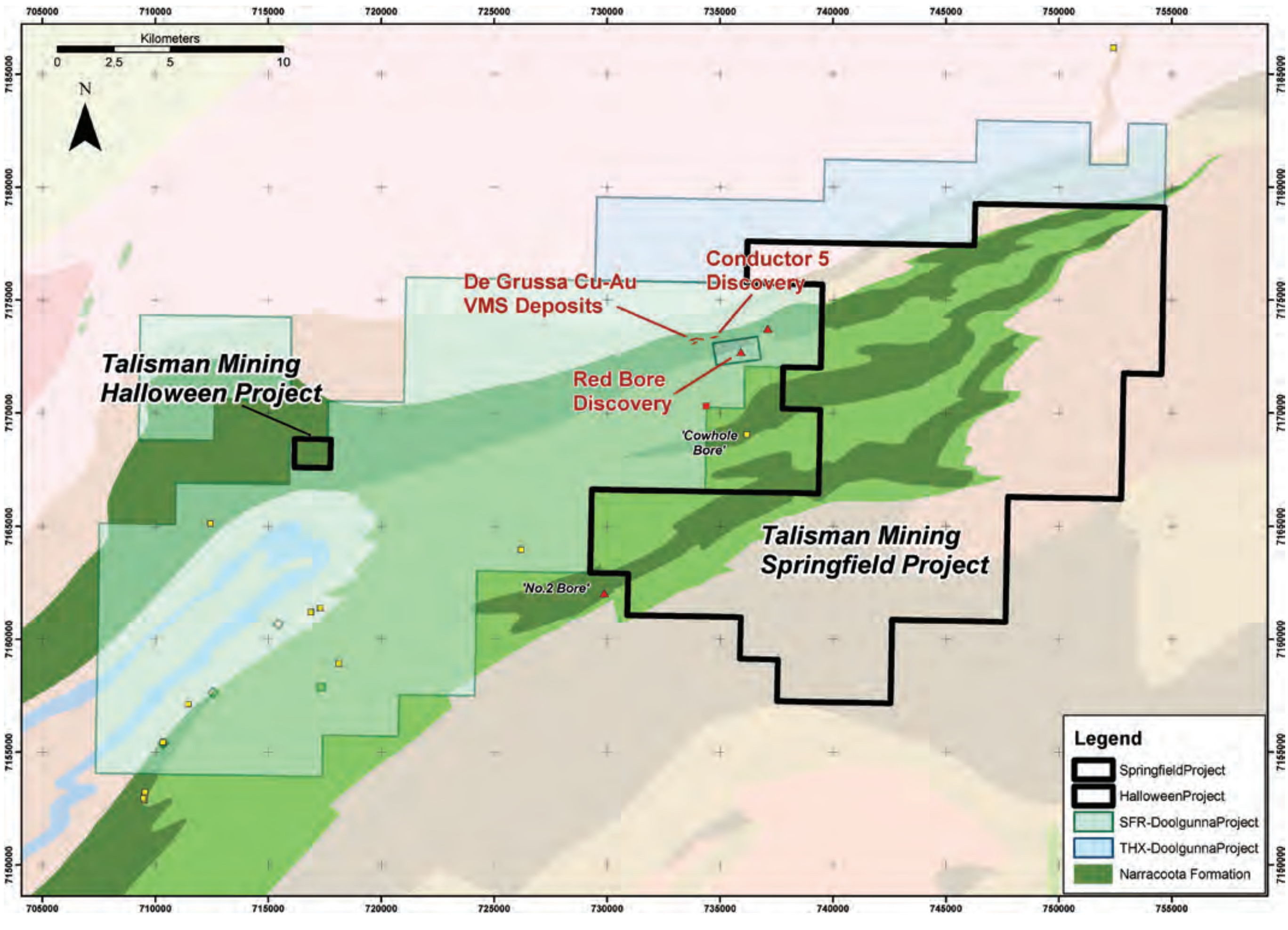

Figure 2 – Springfield Project Location

Exploration at the Springfield Project since the granting of the exploration licences in December 2009 has established that the prospective Narracoota Volcanic Formation extends for over 40 kilometres in three parallel trends or "corridors" across the wider project area (See figure 3). This initial phase of exploration has consisted of:

- Detailed geological mapping;
- Extensive geochemical sampling (7,442 samples);
- Acquisition and interpretation of ultra-detailed airborne magnetic data;
- Reconnaissance reverse circulation drilling (90 holes for 8,196 metres);
- Associated limited down hole electromagnetic surveys (DHEM); and
- Limited trials of moving loop electromagnetic (MLEM) and gravity surveys.

REVIEW OF OPERATIONS (CONTINUED)

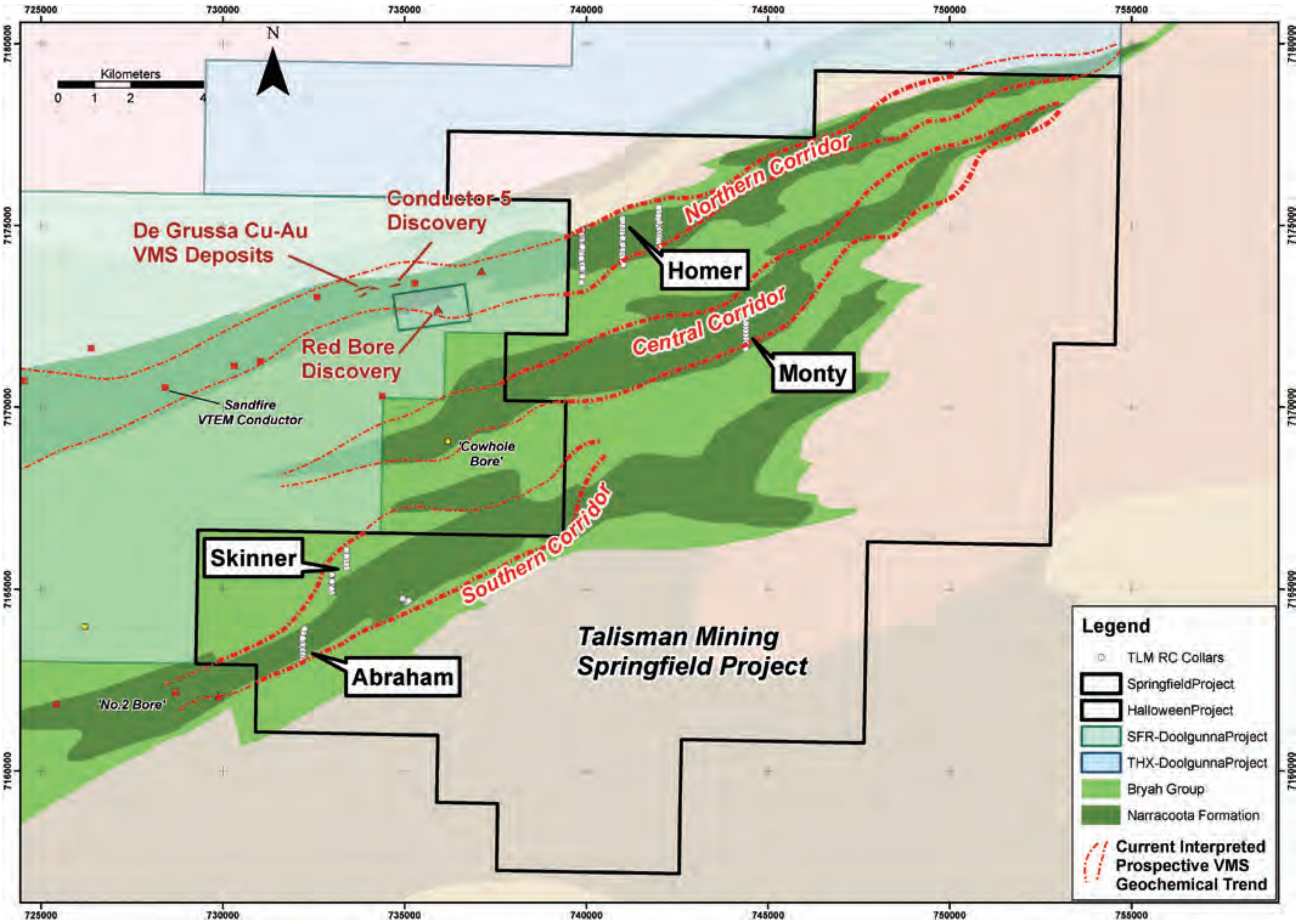

Figure 3 – Springfield Project Geology Summary

The ***Northern Corridor*** represents a direct ~15 km long strike-continuation of the Sandfire DeGrussa VMS Trend contained wholly within Talisman's tenements (see figure 4). This corridor is host to a series of high priority targets identified by geochemical sampling data, airborne magnetic data and in the case of the ***Homer Prospect,*** reverse circulation (RC) drilling.

The results of the initial reconnaissance drilling program at the ***Homer Prospect*** are considered very encouraging given the wide-spaced reconnaissance nature of the drilling. The program of 51 RC holes (4,572 metres) was completed over three sections spaced approximately 1.1km apart (see figure 4).

The important results from this drilling include:

- Understanding of the prospective geological and structural controls;
- Identification of a zone of anomalous copper mineralisation (drill hole SPRC044) on the northern contact with a peak value of **2m @ 0.22% Cu**. This result identifies this position as a high priority for follow-up drilling;
- A broad zone of alteration and associated anomalous gold and copper values was intersected in drill hole SPRC007 on the southern contact. Results include **8 metres @ 1.0g/t Au** (including **2m @ 1.5g/t Au**) within a broader anomalous copper interval of 16 metres @ 180ppm Cu. This highly anomalous and altered zone is located on the contact between a mafic volcanic rock unit and an overlying volcano-sedimentary rock sequence;
- A **broad zone of near surface copper anomalism** (>400ppm Cu) with associated patchy gold values (>40ppb) has been identified in drilling for at least 1.1km along the southern contact. This zone potentially represents near-surface dispersion from a deeper bed-rock source; and
- Identification of a **strong intersection of copper anomalism** in drill hole SPRC045 from within an internal volcano-sedimentary package. Assay results returned a broad intersection of **40 metres @ 500ppm Cu** from 4 metres.

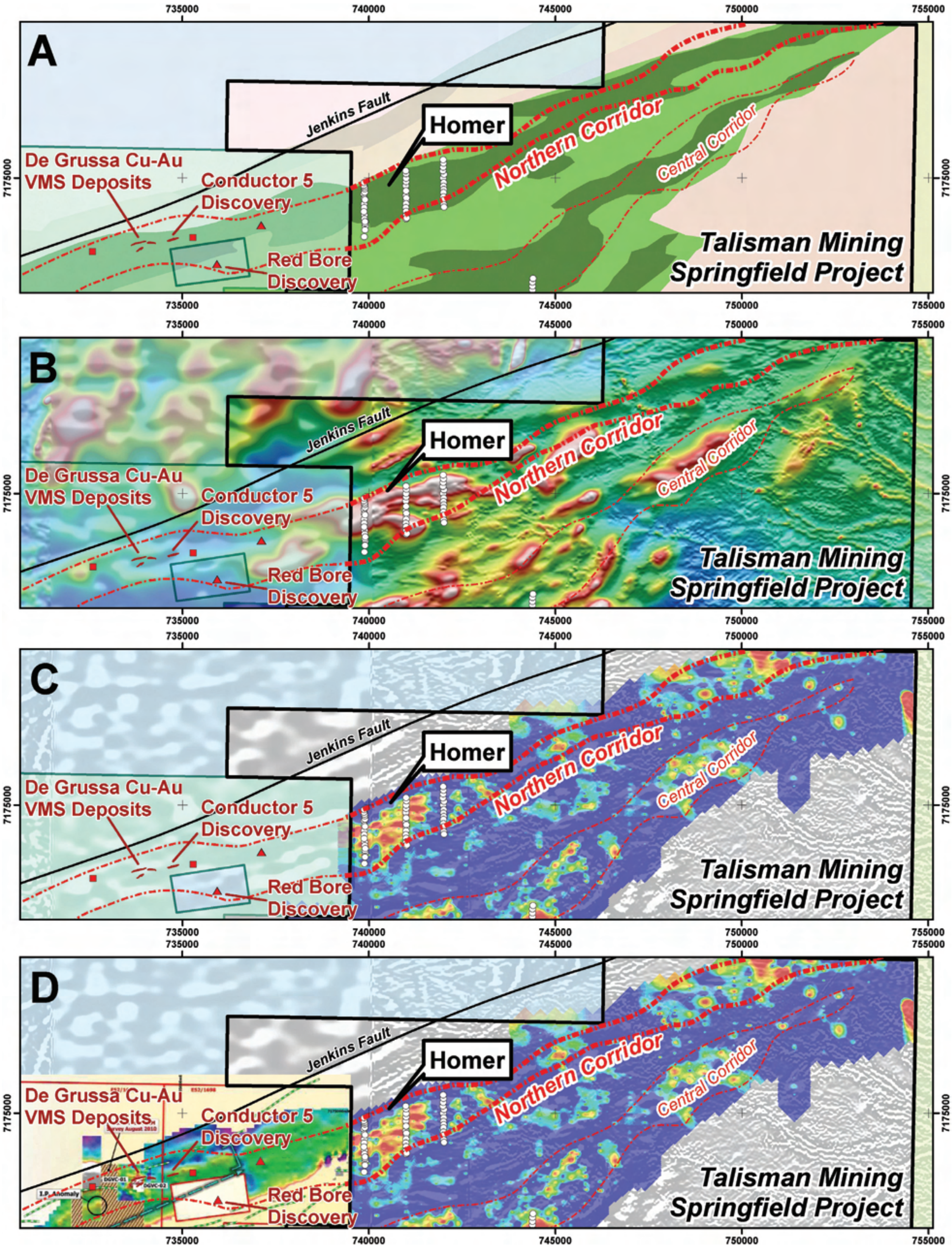

Figure 4 – Springfield Project Northern Corridor

A. Geological interepretation

B. Airborne magnetics

C. Surface Copper Geochemistry

D. Surface Copper Geochemistry and Sandfire Resources surface anomalies

REVIEW OF OPERATIONS (CONTINUED)

The ***Central Corridor*** is a parallel VMS Geochemical Trend with a strike length of more than 17km (see figure 3). The trend is host to the ***Monty Prospect*** where a first pass program of RC drilling has returned a series of very encouraging results.

Results include:

- **SPRC085** 40m @ 465ppm Cu (includes 6m @ 940ppm Cu) from 42m
- **SPRC087** 14m @ 700ppm Cu from 2m and
  6m @ 500ppm Cu from 70m
- **SPRC082** 18m @ 300ppm Cu (includes 4m @ 475ppm Cu and 0.3g/t Au)

These anomalous drill intersections are located on or near the contact between a mafic volcanic rock unit and an overlying volcano-sedimentary rock sequence. Combined with the multi-element geochemistry they are interpreted as a potential vector to a VMS mineralised system.

The ***Southern Corridor*** is a 10km long VMS Geochemical Trend (see figure 3) that hosts the ***Abraham and Skinner Prospects*** where programs of reconnaissance drilling have recently been completed.

The results of this drilling identified substantially more mafic volcanic rocks than expected at Abraham and importantly identified a large body of felsic to intermediate volcanic rocks at Skinner that may be indicative of a proximal volcanic location i.e. close to a mineralizing system.

Given the location and prospectivity of the Springfield Project, and in particular the Northern Corridor, much of Talisman's exploration during 2010-2011 will be focused in this area. Programs of exploration will consist of:

- Targeted diamond and reverse circulation drilling with accompanying DHEM;
- Regional assessment of the prospective corridors utilising extensive aircore drilling coverage to provide critical geological and litho-geochemical data; and
- Application of appropriate geophysical techniques including, MLEM, IP and gravity on a targeted basis.

Logging core at the Springfield Project.

HALLOWEEN PROJECT (Cu-Au)

(100% Talisman Mining Ltd)

The Halloween Project, which was acquired in December 2009, is located approximately 11.5km west of the Springfield Project and 16.5km south-west of, and along strike from, the high-grade DeGrussa Deposit (see figure 5). The Halloween Project covers part of the Narracoota Volcanic Formation and is located along strike of a series of airborne EM conductors identified by both Sandfire and Chrysalis Resources.

Initial surface geochemical sampling by Talisman over the Halloween Project has identified two broad copper-gold anomalies consisting of:

- An extensive 700m long by 200m wide, north-striking, copper-gold anomaly with assays peaking at 960ppb gold; and
- A lower order northwest-striking copper-gold anomaly (400m long by 150m wide) with assays peaking at 90ppb gold.

The results of this initial surface geochemical sampling program are considered to be very encouraging and confirm that the Halloween Project lies within the western projection of the interpreted prospective VMS geochemical trend that hosts the DeGrussa Deposits to the immediate east.

Drilling of this high priority target will be initiated following statutory government approvals and confirmation of access protocols.

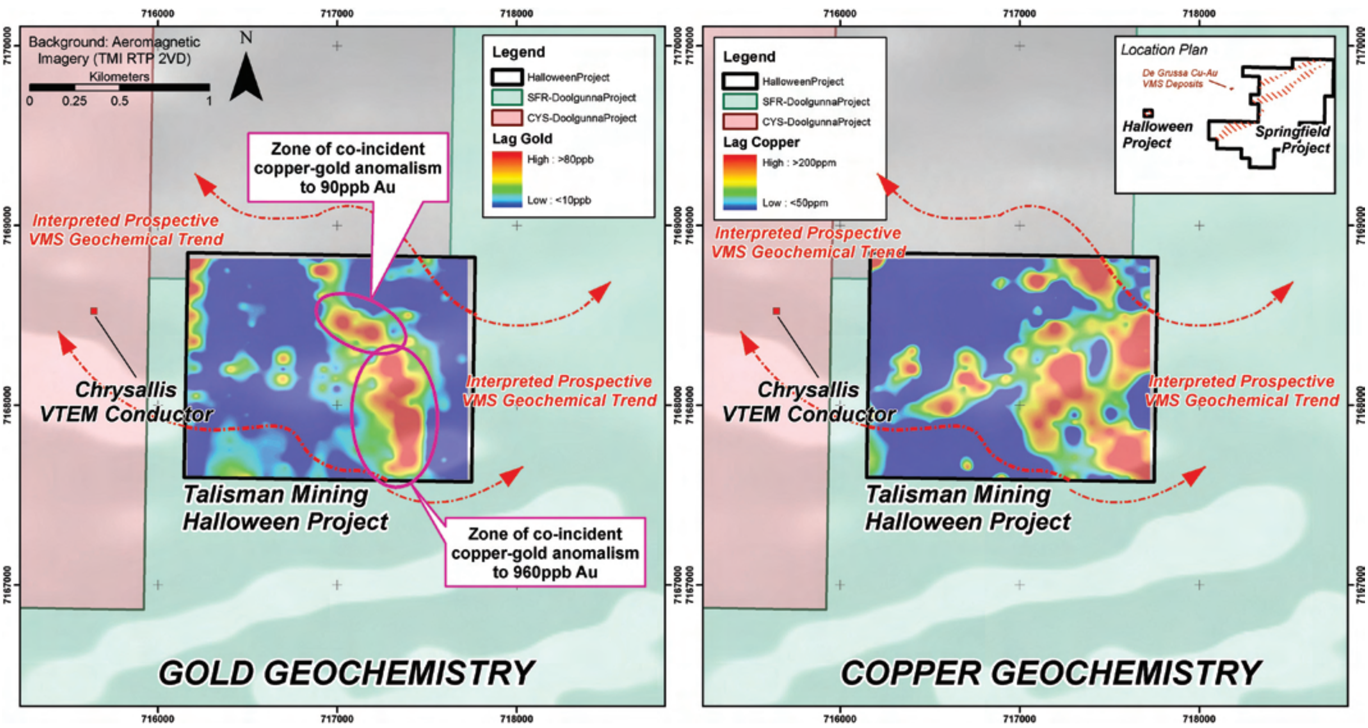

Figure 5 – Halloween Project Geochemistry

SHELBY PROJECT (Cu-Au)

(100% Talisman Mining Ltd)

The Shelby Project is located on the northern margin of the Bryah Basin approximately 30km north of the Horseshoe Lights Copper-Gold Mine (see figure 1). The 309km^2 project area has been targeted on the basis that extensions of the prospective Narracoota Volcanic Formation may extend further to the north under the younger sedimentary units of the Bangemall Basin (see figure 6).

Talisman has successfully applied for funding through the WA Government's Exploration Incentive Scheme (EIS) to drill test this concept. The EIS will co-fund up to $200,000 of direct drilling costs for an initial deep diamond drilling program aimed at testing a large scale magnetic feature interpreted as part of the "basement" Bryah Basin beneath the sediments of the younger Bangemall Basin.

Prior to the commencement of drilling, modeling of the magnetic data will be further improved utilizing new data currently being collected in the regional detailed airborne magnetic survey that is also covering the Springfield and Halloween Projects.

To access the EIS funds the drilling must be completed by June 2011.

Prior to commencement of drilling statutory government approvals and access protocols are required.

REVIEW OF OPERATIONS (CONTINUED)

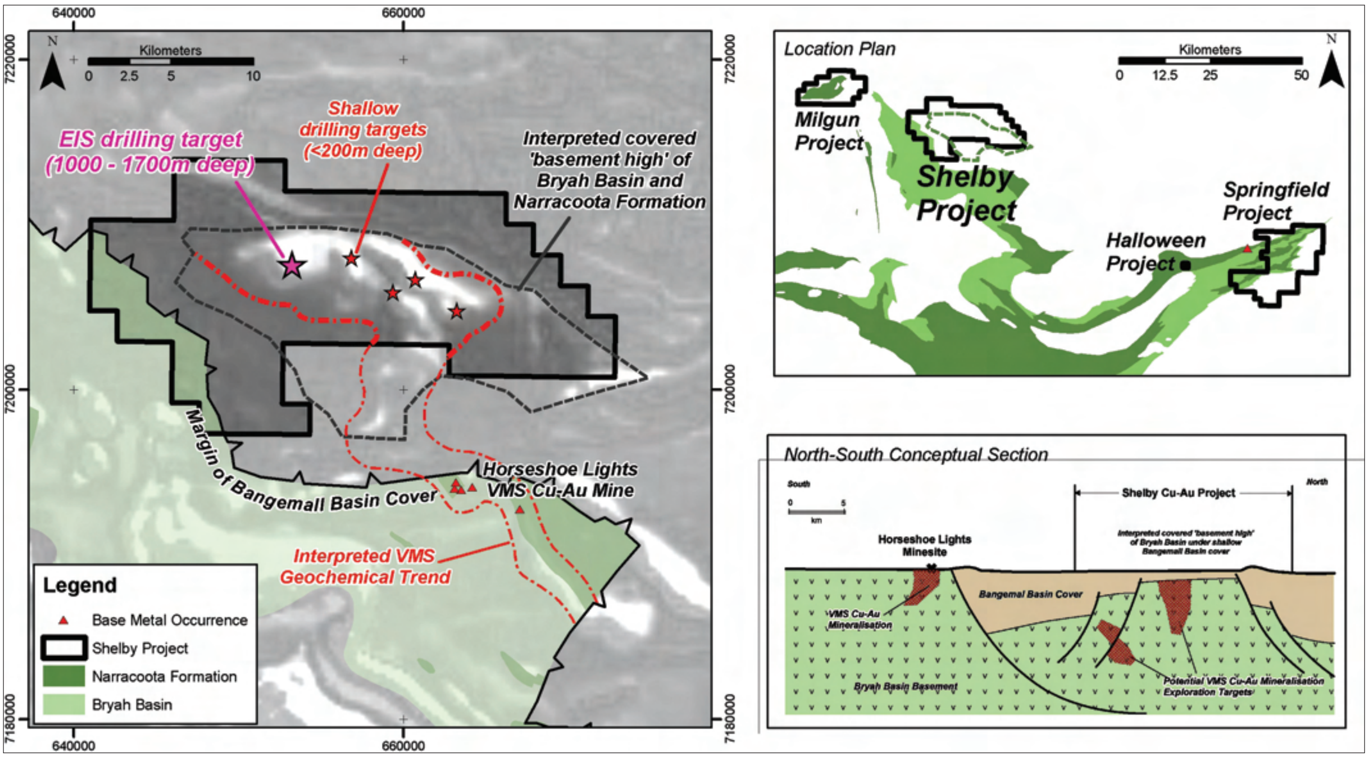

Figure 6 – Shelby Project Geology and Airborne Magnetics

MILGUN PROJECT (Cu-Au)

(80% Talisman Mining Ltd)

The Milgun Project is located approximately 20km north west of the Shelby Project and covers what Talisman has identified as a northern outlier of the Bryah Basin (see figure 1). The 123km^2 Project was originally targeted for gold, however recent assessments have identified the presence of a sequence of volcanic rock that are likely to be the equivalent of the Narracoota Volcanic Formation, and are therefore highly prospective for VMS-style deposits.

Initial exploration at the Milgun Project has commenced during 2010 with a program of reconnaissance mapping and rock chip sampling across a series of old workings.

The mapping has successfully confirmed the presence of a sequence of mafic volcanic rocks that have characteristics the same or similar to the Narracoota Volcanics whilst the assays from the rock chip sampling from the historical Milgun copper workings confirmed the presence of high grade near surface copper oxides (peak result ~2.4% Cu). The presence of the copper oxides in this location is considered encouraging however it is yet to be determined the exact significance of their presence.

The next phase of exploration will involve a program of geochemical sampling and if warranted the acquisition of airborne magnetic data, MLEM and reconnaissance drilling.

IRON ORE PROJECTS

WONMUNNA PROJECT (Fe)

(100% Talisman Mining Ltd)

The Wonmunna Iron Project is strategically located in the heartland of the East Pilbara iron ore mining industry, with three major operating iron ore mines (West Angelas, Area C and Hope Downs) located within 20km of the lease boundary (see figure 7). The Wonmunna Project comprises three primary iron deposits, (North Marra Mamba, Central Marra Mamba and South Marra Mamba) which are prospective for Marra Mamba iron mineralisation and numerous exploration targets prospective for both Marra Mamba and Channel Iron Deposit (CID) mineralisation. To date, JORC inferred resources totalling 78.3Mt @ 56.0% (50% Fe lower cut-off) have been estimated for the Project.

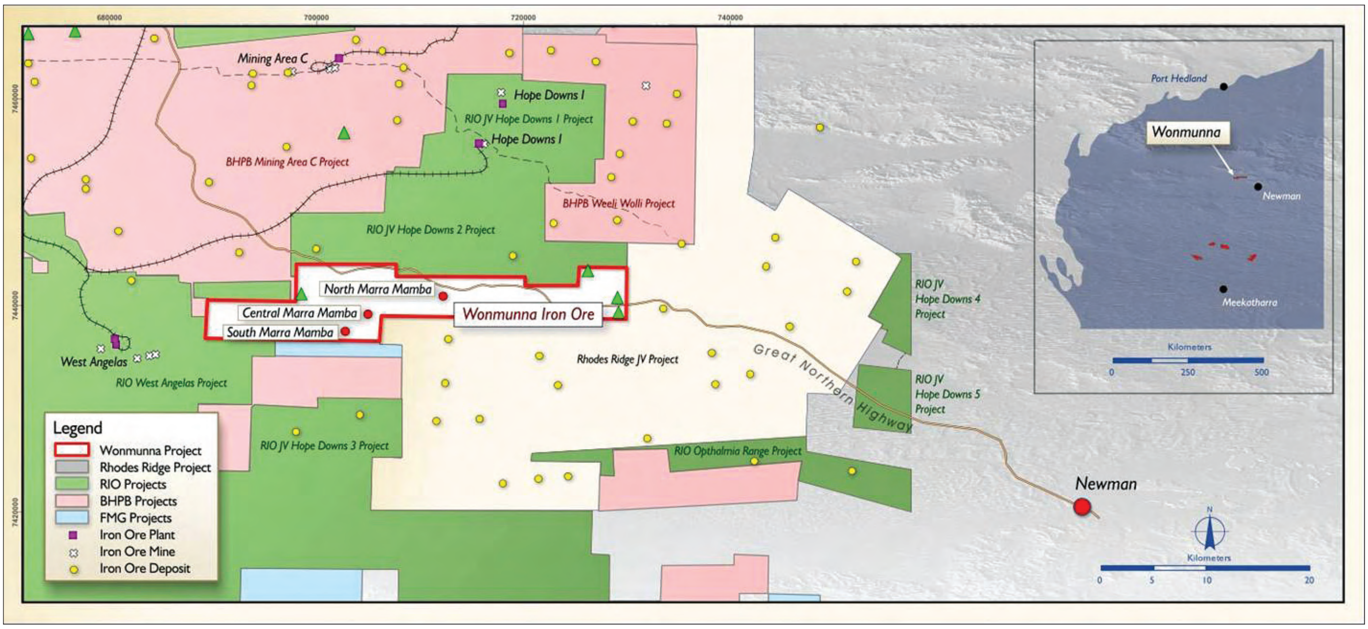

Figure 7 – Wonmunna Project Location

In late 2008 Talisman engaged AMC Consultants Pty Ltd to undertake the **Wonmunna Scoping Study** which was completed in June 2009. The Scoping Study considered 54 potential operating scenarios for the Wonmunna Project, estimating associated mining, processing, transportation and other capital and operating costs for each scenario to an accuracy of +-30% commensurate with the usual degree of accuracy for such Studies.

The Scoping Study was based on the Inferred Mineral Resource estimate for the Wonmunna Project (at a 50% Fe cut-off grade) of;

- **78.3 million tonnes @ 56.0% Fe, 6.6% Si_2O_3, 3.6% Al_2O_3, 0.08% P, 9.2% LOI.**

This Inferred Mineral Resource estimate includes a high-grade Direct Shipping Ore (DSO) component (using a 60% Fe cut-off grade) of;

- **10.0 million tonnes @ 61.3% Fe, 3.1% Si_2O_3, 1.7% Al_2O_3, 0.08% P, 7.3% LOI.**

Pit optimisations were conducted by AMC using both the high-grade (60% Fe cut-off grade) and lower-grade (50% Fe cut-off grade) resource models, enabling both high-grade mining scenarios with relatively short mine life and lower-grade mining scenarios with a longer mine life to be assessed. Mining and processing scenarios considered a suite of operating options based on owner and/or contract operations.

Scoping studies generally are relatively high level technical and economic assessments of various potential development and operating pathways for mineral resources projects that provide an opportunity to identify preferable development and operating scenarios for more detailed and focused assessment in the future.

The Scoping Study concluded that the Wonmunna Project is potentially economic based on high-grade and low-grade options with ore sold to nearby mines at production rates of 2 Mtpa to 5 Mtpa.

Talisman believes the results of the AMC Scoping Study on the Wonmunna Project are encouraging and in light of this, the Company is continuing to evaluate the project including considering strategic alternatives related to marketing and sales options for Wonmunna. This may include the potential for mine gate sales, infrastructure sharing or other arrangements, strategic options for a joint venture, or other mechanism to realise value from the Wonmunna Project.

REVIEW OF OPERATIONS (CONTINUED)

***Table 1:** Wonmunna Inferred Iron Ore Mineral Resources.*

Prospect	Fe cut-off	Tonnage (Mt)*	Grade Fe %	SiO_2 %	Al_2O_3 %	P %	LOI %
North Marra Mamba	50%	47.2	55.9	6.9	3.7	0.07	8.9
	60%	6.2	61.4	3.0	1.8	0.07	7.2
Central Marra Mamba	50%	15.2	56.8	5.7	3.3	0.10	9.5
	60%	2.4	61.2	3.3	1.7	0.10	7.4
South Marra Mamba	50%	15.9	55.3	6.7	3.8	0.07	9.7
	60%	1.4	61.2	2.9	1.6	0.06	7.6
Wonmunna Total	50%	78.3	56.0	6.6	3.6	0.08	9.2
	60%	10.0	61.3	3.1	1.7	0.08	7.3

*In accordance with Clause 24 of the JORC Code, tonnages have been rounded to the nearest 0.1Mt.

UAROO PROJECT (Fe, Au, Base Metals)

(100% Talisman Mining Ltd)

The Uaroo Project lies within the Ashburton Mineral Field approximately 370km north east of Carnarvon. A recent evaluation of the project has highlighted the potential of the Uaroo area to host extensive BIF-associated magnetite deposits similar to those targeted by Zinc Co Australia at their Mt Alexander Magnetite Project (see figure 8).

To date work completed at Uaroo by Talisman has been limited to drainage and rock chip sampling focussed on gold and base metals. Consideration will be given over the next 12 months as to the appropriate strategy to advance or realise value from this project.

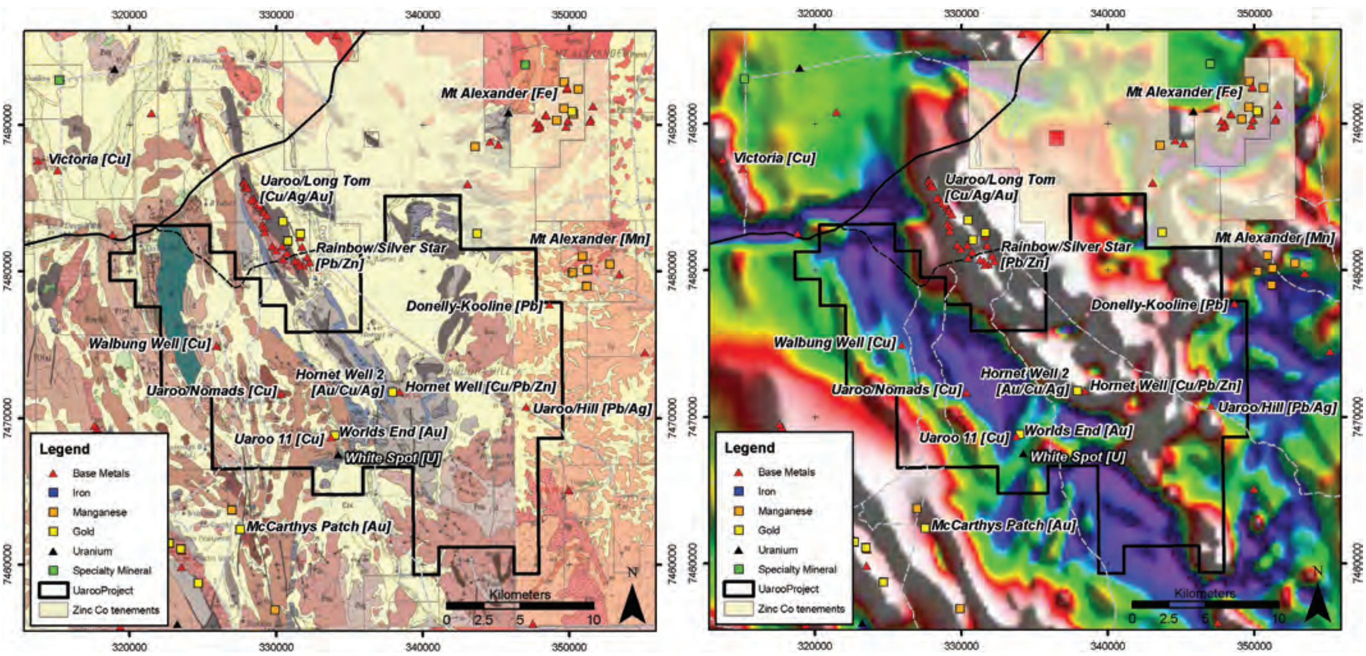

Figure 8 – Uaroo Project Geology and Airborne Magnetics

OTHER PROJECTS

SKULL SPRINGS JOINT VENTURE (Mn)
(TLM 100% / SSR earning 70%)

In October 2009 Talisman and Shaw River Resources (SRR) entered into a letter agreement setting out the terms and conditions of a farm-in on Talisman's East Pilbara manganese tenements. The Skull Springs Project is named after a nearby manganese deposit that is located within 10km of the main prospect. The project comprises four tenements known as Wandanya, Yilgalong and Gangarrigan. The tenements are located on exposed and covered Carawine Dolomite and Pinjian Chert, which are the target horizons for high grade (DSO +40%) manganese ore in the Woodie Woodie region. At Wandanya, located 40km south west of the Woodie Woodie Operations, high grade rock chips up to 65% Mn have been assayed in outcrops of mineralisation trending NE-SW.

Since the farm-in agreement was signed, SRR has completed reconnaissance mapping and grab sampling in the Wandanya Project area resulting in the identification of three target areas over a 2.5km strike length. These areas have returned grab samples grading >35% Mn that are interpreted to be related to shear zones and areas of distinct jasper and limonite alteration indicative of an active hydrothermal system.

The manganese association with shear zones indicates potential for depth extent and the extensive alteration and brecciation of the host rock units indicate the ability of the systems for enough volume permeability to form economic bodies of manganese.

SRR have indicated that pending statutory permitting drilling at these three locations will commence in the second half of 2010.

Talisman exploration vehicles at Wandanya.

ANTICLINE POLYMETALLIC PROJECT
(100% Talisman Mining Ltd – iron rights held by FMG)

Fortescue Metals Group (FMG) holds all the rights to iron ore with Talisman retaining a tonnage based royalty capped at $8m. FMG's Eliwana Prospect is partially located on Talisman's tenements.

Talisman has not undertaken any gold or base metals exploration on the project during the year.

TOM PRICE POLYMETALLIC PROJECT
(100% Talisman Mining Ltd – iron rights held by FMG)

Fortescue Metals Group (FMG) holds all the rights to iron ore with Talisman retaining a tonnage based royalty capped at $8m. FMG are yet to drill-test the iron ore potential of the Spring Creek channel iron deposit (CID), and Talisman considers there is real (as yet untested) potential for Marra Mamba hosted iron ore adjacent to the Tom Price Marra Mamba Deposit.

Talisman has not undertaken any gold or base metals exploration on the project during the year.

COMPETENT PERSONS STATEMENT:

Information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Harry Cornelius, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Harry Cornelius is a full time employee of Talisman Mining Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Mr Harry Cornelius consents to the inclusion in this report of the matters based on information in the form and context in which it appears.

REVIEW OF OPERATIONS (CONTINUED)

Drilling at the Springfield Project.

Tenement Schedule

Project	Tenement	Blocks (Area)	Talisman Equity (%)	JV Partner	Expiry	Annual Commitment	Comments
ANTICLINE	E47/1194	28	100	FMG (Fe)	12/12/2009	$84,000	Term extension Pending
	E47/1195	35	100	FMG (Fe)	12/12/2011	$105,000	
	E47/1196	35	100	FMG (Fe)	12/12/2009	$105,000	Term extension Pending
GANGARRIGAN	E45/3268	1	100	Shaw River JV	17/06/2014	$10,000	
	E45/3269	23	100	Shaw River JV	17/06/2014	$23,000	
HALLOWEEN	P52/1241	(200.0 Ha)	100		17/03/2012	$8,000	
MILGUN	E52/2281	41	100		20/01/2014	$41,000	
SPRINGFIELD	E52/2282	70	100		24/11/2014	$70,000	
	E52/2313	14	100		24/11/2014	$20,000	
	E52/2466	14	100		05/04/2015	$20,000	
SHELBY	E52/2499	42	100		10/12/2014	$42,000	
	E52/2500	36	100		10/12/2014	$36,000	
	E52/2519	25	100		07/01/2015	$25,000	
TOM PRICE	E47/1136	30	100	FMG (Fe)	19/02/2012	$90,000	
UAROO	E08/1939	138	100		12/08/2015	$138,000	
WANDANYA	E46/0764	36	100	Shaw River JV	20/05/2014	$36,000	
WONMUNNA	E47/1137	69	100		28/08/2011	$207,000	
	M47/1423	(670.0 Ha)	100				application
	M47/1424	(1514.0 Ha)	100				application
	M47/1425	(529 Ha)	100				application
YAMARNA	E38/2223	53	100		12/10/2014	$53,000	
	E38/2330	48	100		27/04/2015	$48,000	
	E38/2331	15	100		27/04/2015	$20,000	
YILGALONG	E45/3220	10	100	Shaw River JV	10/02/2014	$20,000	

CORPORATE GOVERNANCE STATEMENT

Talisman Mining Limited has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and the reason for the adoption of its own practice, in compliance with the "if not, why not" reporting regime.

Website Disclosures

Further information about the Company's charters, policies and procedures are found at the Company's website at www.talismanmining.com.au, under the section marked Corporate Governance. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3
Policies and Procedures	
Policy and Procedure for Selection and (Re)Appointment of Directors	2.6
Process for Performance Evaluation	1.2, 2.5
Policy on Assessing the Independence of Directors	2.6
Policy for Trading in Company Securities (summary)	3.2, 3.3
Code of Conduct (summary)	3.1, 3.3
Policy on Continuous Disclosure (summary)	5.1, 5.2
Procedure for Selection, Appointment and Rotation of External Auditor	4.4
Shareholder Communication Policy	6.1, 6.2
Risk Management Policy (summary)	7.1, 7.4

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the Board and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Company has established the functions delegated to executive directors and senior executives and has set out these functions in its Board Charter. Executive directors and senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. The Managing Director must also report to the Board in a timely manner on those matters included in the Company's risk profile, all relevant operational matters and any other material matter.

Executive directors and senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The Nomination Committee is charged with periodic review of the job description and performance of the Managing Director and executive directors according to agreed performance parameters. Other senior executives are evaluated by the Managing Director.

The performance of the Managing Director, executive directors and senior executives are evaluated informally against both individual performance and overall business measures. These evaluations are undertaken progressively and periodically.

Recommendation 1.3:

Companies should provide the information indicated in the ***Guide to reporting on Principle 1***.

Disclosure:

During the Reporting Period an evaluation of the Managing Director, executive directors and senior executives took place in accordance with the process disclosed at Recommendation 1.2.

Please refer to the previous section marked Website Disclosures.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independent directors.

Notification of Departure:

The Board does not have a majority of independent directors. The independent directors of the Board are Alan Senior and Karen Gadsby. The non-independent directors of the Board are Gary Lethridge, Brian Dawes and Peter Langworthy.

Explanation for Departure:

The Board believes that the current structure is most appropriate for the Company having regard to its size, its current level of operations and its strategy of minimising operating costs. As the Company grows and/or the circumstances change, the Board may make further appointments of independent directors if considered appropriate.

Recommendation 2.2:

The Chair should be an independent director.

Disclosure:

The independent Chair of the Board is Alan Senior.

Recommendation 2.3:

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

Disclosure:

The Managing Director is Gary Lethridge who is not Chair of the Board.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Disclosure:

The Board has established a Nomination Committee.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Disclosure:

The Chair is responsible for arranging Board performance evaluation. Evaluation of the Board, its committees and individual directors is undertaken via ongoing discussions with regard to the performance of the Board and its directors. The Company has adopted policies and procedures concerning the evaluation and development of its directors, executives and Board committee. Procedures include an annual internal Board performance assessment and ongoing discussions with regard to the performance of the Board and its directors.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Recommendation 2.6:

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

Disclosure:

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

Identification of Independent Directors

The independent directors of the Company are Alan Senior and Karen Gadsby. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The materiality thresholds are set out below.

Company's Materiality Thresholds

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

Statement of financial position items are material if they have a value of more than 10% of net assets. Statement of comprehensive income items are material if they will have an impact on the current year operating result of 10% or more.

Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on statement of financial position or statement of comprehensive income items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Nomination Matters

The Nomination Committee held 2 meetings during the Reporting Period. The following table identifies those directors who are members of the Nomination Committee and shows their attendance at Committee meetings:

Name	No. of meetings attended
Alan Senior (Chair)	2
Karen Gadsby	2

Performance Evaluation

During the Reporting Period an evaluation of the Board and individual directors took place in accordance with the process disclosed at Recommendation 2.5. During the period an evaluation of the Audit Committee performance took place, there were no evaluations of other Board committees.

Selection and (Re) Appointment of Directors

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure whereby it evaluates the range of skills, experience and expertise of the existing Board; considers the balance of independent directors on the Board as well as the particular skills and qualifications of potential candidates that will best increase the Board's effectiveness. A potential candidate is considered with reference to their skills and expertise in relation to other Board members. If relevant, the Nomination Committee recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next annual general meeting. The Board's Policy and Procedure for Selection and (Re) Appointment of Directors is available on the Company's website.

Please refer to the previous section marked Website Disclosure.

The Board recognises that Board renewal is important to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees.

Recommendation 3.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

Notification of Departure:

The Audit committee does not meet the structural requirements of Recommendation 4.2.

The Audit Committee comprises two non-executive independent directors, being Alan Senior and Karen Gadsby.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Explanation for Departure:

Given the size and composition of the Board, the Company is unable to comply with Recommendation 4.2. However, the Board believes that having two independent non-executive directors on the Committee is the most appropriate structure for its Audit Committee. Further, Karen Gadsby, who is not Chair of the Board, is the Chair of the Audit Committee and is an experienced chartered accountant. Accordingly, the Audit Committee meets all structural requirements of Recommendation 4.2 except that it has two members instead of three.

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has adopted an Audit Committee Charter.

Recommendation 4.4:

Companies should provide the information indicated in the ***Guide to reporting on Principle 4***.

Disclosure:

The Audit Committee held three meetings during the Reporting Period. Both members of the Audit Committee, Karen Gadsby (Chair) and Alan Senior, attended all Committee meetings:

Karen Gadsby, the Chair of the Audit Committee has 26 years experience in finance, has a Bachelor of Commerce and is a qualified Chartered Accountant. Ms Gadsby has held a number of Audit Committee positions and has the relevant knowledge and experience to guide the Committee. Mr Senior has a wealth of industry experience. Both members of the Audit Committee consider themselves to be financially literate and have industry knowledge.

The Company has established procedures for the selection, appointment and rotation of its external auditor, which is available on the Company's website. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

Recommendation 5.2:

Companies should provide the information indicated in the ***Guide to reporting on Principle 5***.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

Recommendation 6.2:

Companies should provide the information indicated in the ***Guide to reporting on Principle 6***.

Disclosure:

Please refer to the previous section marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, (with the assistance of the executive directors and the senior executives), who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director, (with the assistance of the senior executives) is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

The Audit Committee also monitors and reviews the integrity of financial reporting and the Company's internal financial control systems and risk management systems and reports to the Board.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management which, if exceeded, will require prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Company has established systems to identify, categorise and manage the Company's material business risks. The Company utilises a risk matrix which identifies the Company's material business risks; assesses the severity and likelihood of each risk and promotes a risk management strategy. The risk matrix is regularly reviewed by the Board to identify any changes that need to be made. It is tabled and updated if required at least quarterly. The key risks addressed include:

- Occupational Health and Safety
- Protection of assets
- Market risk
- Liquidly risk
- Compliance risk

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board has received a report from the Managing Director as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Disclosure:

The Managing Director and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Recommendation 7.4:

Companies should provide the information indicated in the *Guide to reporting on Principle 7.*

Disclosure:

The Board has received the report from the Managing Director under Recommendation 7.2.

The Board has received the assurance from the Managing Director and the Chief Financial Officer under Recommendation 7.3.

Please refer to the previous section marked Website Disclosures.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

The Company has established a Remuneration Committee.

Recommendation 8.2:

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Disclosure:

Non-executive directors are remunerated at market rates (for comparable companies) for time, commitment and responsibility. Remuneration for non-executive directors is not linked to performance of the Company. Given the Company is at its early stage of development and the financial restrictions placed on it, the Company may consider it appropriate to issue unlisted options to non-executive directors, subject to obtaining the relevant approvals. This policy is subject to annual review.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals.

Recommendation 8.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 8.*

Disclosure:

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

The Remuneration Committee held 2 meetings during the Reporting Period. The following table identifies those directors who are members of the Remuneration Committee and shows their attendance at Committee meetings:

Name	No. of meetings attended
Alan Senior (Chair)	2
Karen Gadsby	2

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Please refer to the previous section marked Website Disclosures.

DIRECTORS' REPORT

The directors of Talisman Mining Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

<table>
<tr><th>Name</th><th>Particulars</th></tr>
<tr><td>Mr Alan Senior
Asscshp Mech Eng, FIEAUST, CPEng, FAusIMM
Appointed 7 November 2007</td><td>Chairman (Non-Executive/Independent)
Alan has extensive experience at all stages of projects, from pre-feasibility through to commissioning and operation, for plants handling and/or processing iron ore, gold, copper, bauxite, uranium, and coal. Throughout his career Alan has worked for the iron ore industry. In the 1970's and early 80's he worked as a designer on major expansion projects for Mt Newman Mining (now BHPB) and Hamersley Iron (now CRA).
Alan graduated from the West Australian Institute of Technology (Curtin University) with an Associateship in Mechanical Engineering in 1968. He is an engineer with over 36 years experience in design and project development, mainly associated with the mining and mineral processing industry in Australia.
Alan was a non-executive Director of Jubilee Mines NL up until its purchase by Xstrata. Before joining the board of Jubilee in 2003 he led the team which completed the feasibility study for the Cosmos Nickel project and its successful implementation, followed three years later by the transition from open cut to underground mining. Alan is also a non-executive Director of Tanami Gold NL.
Alan is a Fellow of the Institution of Engineers Australia, a Fellow of the Australian Institute of Mining and Metallurgy, and a Chartered Professional Engineer.</td></tr>
<tr><td>Mr Gary Lethridge
B. Comm, CA, FCIS, MAICD
Appointed 2 February 2009</td><td>Managing Director (Executive/Non-Independent)
Gary has spent the past 15 years within the resources industry and has been involved in all phases and aspects of gold and base metals resources projects. Prior to joining Talisman, he held the position of Executive General Manager Corporate / Chief Financial Officer of the highly successful Australian nickel producer Jubilee Mines NL. Before that, Mr Lethridge held senior executive positions with LionOre Mining International Limited in Australia. A chartered accountant, he commenced his career with Ernst & Young in 1984.</td></tr>
<tr><td>Mr Brian Dawes
B. Sc. Mining, MAusIMM(CP)
Appointed 17 June 2009</td><td>Executive Director (Non-Independent)
Brian has a mining engineering background with over 27 years experience in corporate, senior management, operational, consulting, and planning roles. A graduate of Leeds University, he has extensive experience across a diverse set of base metal and gold projects around Australia and holds first class mine managers certificates for WA, Queensland, Tasmania, and the NT. He has lived in Africa and the Middle East working on established and greenfields base metal projects. Previously Brian has held the positions of: EGM Operations & Projects with Jubilee Mines until its sale, GM Operations with Western Areas, Group Mining Engineer with LionOre Australia, and other roles with WMC, Normandy Mining, Aberfoyle, Minproc and MIM.</td></tr>
<tr><td>Mr Peter Langworthy
B. Sc Hons, MAusIMM
Appointed 17 June 2009</td><td>Technical Director (Executive/Non-Independent)
Peter is a Geologist with over 23 years experience in the exploration and mining industry, including senior technical, management and corporate roles. Prior to taking his current role with Talisman he held the role of Executive General Manager – Exploration with Jubilee Mines NL where he played a significant role in the exploration, mining and management of the company. Post the successful takeover of Jubilee by Xstrata Nickel Australasia Pty Ltd, Peter acted as the Chief Operating Officer and was responsible for the integration of the Jubilee business into the Xstrata Nickel Business.
He has extensive experience in nickel sulphide, gold and base metals exploration, extending to regional exploration and operating mines.</td></tr>
<tr><td>Ms Karen Gadsby
B Comm, FCA, MAICD
Appointed 3 April 2008</td><td>Non-Executive Director
Karen has 26 years experience in Finance, graduated from UWA with a Bachelor of Commerce in 1984 and qualified as a Chartered Accountant with Coopers and Lybrand (WA) in 1987.
Karen worked for North Ltd throughout Australia for 13 years in various executive roles including 6 years with Robe River Iron Associates in Perth. She has held the positions of General Manager Finance, CFO and Company Secretary.
She now resides in WA, has been involved with boards for over 12 years and now predominately works as a non-executive director. She is currently a director of the boards of Forest Products Commission and Community First International Ltd and was previously a director of AMES(Vic) GMHBA(Vic), Western Health (Vic) and Perth Home Care Services. Karen has been the Chair of the Finance, Audit and Risk Management committees for these boards. She also consults and advises in the areas of business and finance strategy, change management and executive mentoring.
Karen is a Fellow of the Institute of Chartered Accountants and is a Member of the Australian Institute of Company Directors.</td></tr>
</table>

The above named directors held office during and since the end of the financial year.

DIRECTORS' REPORT (CONTINUED)

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Appointed	Resigned
Alan Senior	Jubilee Mines NL	14-Feb-03	7-Feb-08
	Tanami Gold NL	31-Jul-07	current
Gary Lethridge	Falcon Minerals Ltd	24-Jan-05	18-Feb-08
	Northern Star Resources Ltd	14-Apr-04	7-Feb-08
Peter Langworthy	Pioneer Resources Ltd (formerly Pioneer Nickel Ltd)	29-Nov-04	22-Jul-09
	Northern Star Resources Ltd	16-Jun-06	22-Apr-09
	Falcon Minerals Limited	18-Feb-08	31-Jul-09
Brian Dawes	-		
Karen Gadsby	-		

Directors' shareholdings

The following table sets out each director's relevant interest in shares, and rights or options in shares of the Company or a related body corporate as at the date of this report:

Directors	Fully paid ordinary shares Number	Share options Number
Alan Senior	116,666	4,000,000
Gary Lethridge	666,667	4,000,000
Brian Dawes	353,333	2,000,000
Peter Langworthy	666,667	4,000,000
Karen Gadsby	311,334	2,000,000

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the Remuneration Report of this Directors' Report.

Share options granted to directors and senior management

During and since the end of the financial year an aggregate 7,100,000 share options were granted following shareholder approval to the following directors and the five highest remunerated officers of the company as part of their remuneration:

Directors and senior managament	Number of options granted	Issuing entity	Number of ordinary shares under option
Brian Dawes (i)	2,000,000	Talisman Mining Limited	2,000,000
Peter Langworthy (ii)	4,000,000	Talisman Mining Limited	4,000,000
Harry Cornelius (iii)	100,000	Talisman Mining Limited	858,000
Daniel Madden (iv)	1,000,000	Talisman Mining Limited	1,000,000

(i) 0.25 million options vest 23 July 2009; 0.5 million options vest 31 December 2009; 0.5 million options vest 30 June 2010; 0.5 million options vest 31 December 2010; and 0.25 million options vest 30 June 2011.

(ii) 0.5 million options vest 23 July 2009; 1.0 million options vest 31 December 2009; 1.0 million options vest 30 June 2010; 1.0 million options vest 31 December 2010; and 0.5 million options vest 30 June 2011.

(iii) 0.1 million options vest 30 June 2010.

(iv) 0.2 million options vest 23 November 2009; 0.2 million options vest 30 June 2010; 0.2 million options vest 31 December 2010; 0.2 million options vest 30 June 2011; and 0.2 million options vest 31 December 2011.

Company Secretary

Daniel Madden BComAcc (Hons), ACA

Daniel joined the company on 23 November 2009 and was appointed Company Secretary of Talisman on 1 December 2009. Daniel spent the last 8 years in the resources industry in Western Australia holding positions as audit manager for Deloitte, Financial Controller for Jubilee Mines NL and Xstrata Nickel Australasia. Most recently he held the senior position of Manager of Finance for Xstrata Nickel Australasia.

The previous Company Secretary, Darren Crawte, resigned on 1 December 2009.

Principal activities

The principal activity of Talisman Mining Limited during the course of the financial year was the exploration for base metals, iron ore and gold.

Review of operations

A detailed review of operations during the financial year is set out in the section titled "Review of Operations" in this Annual Report.

Financial Performance

During the financial year the Company incurred an operating loss after tax of $6,894,386 (2009: $3,618,752) which included a $3,319,635 write-off relating to previously capitalised expenditure on tenements that were relinquished during the financial year as part of the review and identification of low priority projects.

Financial Position

As at 30 June 2010 the Company had net assets of $23,054,633 (2009: $16,155,580) including $13,661,782 of cash and cash equivalents (2009: $6,588,990).

The strong balance sheet and net working capital position will provide a foundation for the Company's planned exploration and growth activities for the forthcoming financial year.

Changes in state of affairs

There was no significant change in the state of affairs of the Company during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The Company's environmental obligations are regulated under both State and Federal legislation. Performance with respect to environmental obligations is monitored by the Board of Directors and subjected from time to time to government agency audits and site inspections. No environmental breaches have been notified by any government agency during the year ended 30 June 2010.

Dividends

No dividends have been paid or declared since the start of the financial year. No recommendation for the payment of a dividend has been made.

DIRECTORS' REPORT (CONTINUED)

Share options

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Talisman Mining Limited	21,733,848	Ordinary	$0.20	31-Dec-10
Talisman Mining Limited	1,456,000	Ordinary	$0.25	31-Dec-10
Talisman Mining Limited	1,400,000	Ordinary	$1.20	31-Dec-10
Talisman Mining Limited	1,500,000	Ordinary	$1.00	30-Nov-10
Talisman Mining Limited	1,500,000	Ordinary	$1.20	30-Nov-10
Talisman Mining Limited	1,000,000	Ordinary	$1.60	30-Nov-10
Talisman Mining Limited	1,000,000	Ordinary	$2.20	30-Nov-10
Talisman Mining Limited	500,000	Ordinary	$1.00	31-May-11
Talisman Mining Limited	500,000	Ordinary	$1.20	31-May-11
Talisman Mining Limited	500,000	Ordinary	$1.60	31-May-11
Talisman Mining Limited	500,000	Ordinary	$2.20	31-May-11
Talisman Mining Limited	4,000,000	Ordinary	$0.22	31-Aug-11
Talisman Mining Limited	2,250,000	Ordinary	$0.50	30-Jun-13
Talisman Mining Limited	1,500,000	Ordinary	$0.60	30-Jun-13
Talisman Mining Limited	2,250,000	Ordinary	$0.70	30-Jun-13
Talisman Mining Limited	400,000	Ordinary	$1.00	30-Nov-13
Talisman Mining Limited	200,000	Ordinary	$1.10	30-Nov-13
Talisman Mining Limited	200,000	Ordinary	$1.20	30-Nov-13
Talisman Mining Limited	200,000	Ordinary	$1.30	30-Nov-13
Talisman Mining Limited	200,000	Ordinary	$0.95	30-Jun-13
Talisman Mining Limited	200,000	Ordinary	$1.36	7-Jul-11
Talisman Mining Limited	25,000	Ordinary	$1.14	26-Oct-11
Talisman Mining Limited	25,000	Ordinary	$1.32	26-Apr-13

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Shares issued on exercise of options

Details of shares or interests issued during or since the end of the financial year as a result of the exercise of options are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Talisman Mining Limited	599,181	Ordinary	$0.20	-
Talisman Mining Limited	350,000	Ordinary	$0.25	-

There are no unpaid amounts on the shares issued.

Shares options that expired/lapsed

There were 12,500 employee options with an exercise price of $1.36 and an expiry date of 7 July 2010 that lapsed during or since the end of the financial year.

Indemnification of officers and auditors

During the financial year, the Company entered into a contract insuring the directors and executive officers of the Company and of any related body corporate against a liability incurred as a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or related body corporate against a liability incurred as an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 11 board meetings, 3 audit committee meetings, 2 remuneration committee meetings and 2 nomination committee meetings were held.

	Board of directors		Audit committee		Remuneration committee		Nomination committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Alan Senior	11	11	3	3	2	2	2	2
Gary Lethridge	11	11	-	-	-	-	-	-
Brian Dawes	11	11	-	-	-	-	-	-
Peter Langworthy	11	11	-	-	-	-	-	-
Karen Gadsby	11	10	3	3	2	2	2	2

Proceedings on behalf of the company

No persons have applied for leave pursuant to s.237 of the Corporation Act 2001 to bring, or intervene in, proceedings on behalf of Talisman Mining Ltd.

Non-audit services

There were no non-audit services performed during the year by the auditors (or by another person or firm on the auditor's behalf).

Auditor's independence declaration

The auditor's independence declaration is included on page 31 of the annual report.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT

This Remuneration Report, which forms part of the directors' report, sets out information about the remuneration of Talisman Mining Limited's key management personnel for the financial year ended 30 June 2010. The information in the remuneration report has been audited as required by Section 308(3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company receiving the highest remuneration.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel details;
- remuneration policy and relationship between the remuneration policy and company performance;
- remuneration of key management personnel; and
- key terms of employment contracts.

Key management personnel details

The key management personnel of Talisman Mining Limited during the year or since the end of the year were:

Alan Senior	Chairman
Gary Lethridge	Managing Director
Brian Dawes	Executive Director
Peter Langworthy	Technical Director
Karen Gadsby	Non Executive Director
Harry Cornelius	Exploration Manager
Daniel Madden	Chief Financial Officer and Company Secretary (appointed 23 November 2009 and 1 December 2009 respectively)
Darren Crawte	Company Secretary (resigned 1 December 2009)

Included in key management personnel above are the 5 highest remunerated executives of the Company.

Remuneration policy and relationship between the remuneration policy and company performance

Key management personnel (excluding non-executive directors)

The Board is responsible for determining the remuneration policies for the Company, including those affecting executive directors and other key management personnel. The Board may seek appropriate external advice to assist in its decision making. Remuneration policies and practices are directed primarily at attracting, motivating and retaining key management personnel.

The remuneration policy for executive directors and other key personnel has three components, fixed remuneration, long term incentive and a potential discretionary bonus.

Fixed remuneration

Executive directors and other key management personnel receive fixed remuneration in the form of a base salary (inclusive of statutory superannuation).

Long term incentive

To align the interests of key management personnel with the long term objectives of the Company and its shareholders, the Company's policy, having regard to the stage of development of its assets, is to issue share options at the complete discretion of the Board, subject to shareholder approval for directors. Vesting conditions relating to the performance of the company are not considered appropriate having regard to the stage of development of the Company's assets.

Bonus

A discretionary bonus was paid during the financial year to executive directors and other key management personnel. Bonuses are paid at the discretion of the Remuneration Committee and were in recognition of the significant efforts of executive directors and other key management personnel and their contribution to the Company's performance during the financial year.

Non-executive directors

The Company's non-executive directors receive fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive directors reflect the demands on, and responsibilities of, the directors including participation on relevant Board Committees. They do not receive any retirement benefits (other than compulsory superannuation). The Board decides annually the level of fees to be paid to non-executive directors with reference to market standards.

Non-executive directors may also receive share options (subject to shareholder approval) where this is considered appropriate by the Board as a whole and with regard to the stage of the Company's development. Such options vest across the life of the option and are primarily designed to provide an incentive to non-executive directors to remain with the Company.

A non-executive directors' fee pool limit of $300,000 per annum was approved by the shareholders at the General Meeting on 19 May 2008 and is currently utilised to a level of $143,000 per annum. The annual fee currently paid to the non-executive Chairman is $88,000 per annum and $55,000 per annum for the non-executive directors (excluding statutory superannuation).

Remuneration of key management personnel

	Short-term employee benefits				Post-employment benefits	Other long-term employment benefits	Share-based payments	Total	% of compensation linked to performance
2010	Salary & fees $	Bonus $	Non-monetary $	Other $	Superannuation $	$	Options $	$	
Directors									
Alan Senior	80,000	-	-	-	7,200	-	164,081	251,281	65%
Gary Lethridge	275,000	75,000	-	-	31,500	-	144,004	525,504	27%
Brian Dawes	103,680	20,000	-	-	11,131	-	385,266	520,077	74%
Peter Langworthy	270,000	50,000	-	-	28,800	-	770,532	1,119,332	69%
Karen Gadsby	50,000	-	-	-	4,500	-	114,008	168,508	68%
Executives									
Harry Cornelius	165,137	50,000	-	-	19,362	-	50,000	284,499	18%
Daniel Madden	90,962	10,000	-	-	9,086	-	440,340	550,388	80%
	1,034,779	205,000	-	-	111,579	-	2,068,231	3,419,589	

	Short-term employee benefits				Post-employment benefits	Other long-term employment benefits	Share-based payments	Total	% of compensation linked to performance
2009	Salary & fees $	Bonus $	Non-monetary $	Other(i) $	Superannuation $	$	Options $	$	
Directors									
Alan Senior	76,667	-	-	-	6,900	-	485,048	568,615	85%
Gary Lethridge	108,541	-	-	-	9,769	-	760,716	879,026	86%
Brian Dawes	10,200	-	-	-	918	-	-	11,118	-
Peter Langworthy	34,560	-	-	-	-	-	-	34,560	-
Karen Gadsby	46,667	-	-	13,000	4,200	-	400,063	463,930	86%
Steve Elliott	95,640	-	-	-	8,608	-	-	104,248	-
Mick Bunyard	43,462	-	-	-	3,912	-	110,857	158,231	70%
Executives									
Harry Cornelius	157,728	-	-	-	14,195	-	79,300	251,223	32%
	573,465	-	-	13,000	48,502	-	1,835,984	2,470,951	

(i) Relates to a one off consulting fee paid on arms lengths terms and conditions.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Share based payments granted as compensation for the current financial year

Incentive share based payment arrangements

During the financial year the following share based payment arrangements for key management personnel were in existence:

	Options series	Grant date	Expiry date	Fair value per option at grant date $		Vesting date
1	Issued 25 March 2008	19-May-09	31-Dec-10	$	0.32	30-Apr-09
2	Issued 21 May 2008	19-May-09	30-Nov-10	$	0.34	on grant date
3	Issued 21 May 2008	19-May-09	30-Nov-10	$	0.31	30-Nov-08
4	Issued 21 May 2008	19-May-09	30-Nov-10	$	0.27	30-Nov-09
5	Issued 21 May 2008	19-May-09	30-Nov-10	$	0.23	30-Sep-10
6	Issued 21 May 2008	19-May-09	31-May-11	$	0.37	30-Nov-08
7	Issued 21 May 2008	19-May-09	31-May-11	$	0.35	31-May-09
8	Issued 21 May 2008	19-May-09	31-May-11	$	0.31	31-May-10
9	Issued 21 May 2008	19-May-09	31-May-11	$	0.27	31-Mar-11
10	Issued 20 March 2009	20-Mar-10	31-Aug-11	$	0.23	on grant date
11	Issued 20 March 2009	20-Mar-10	31-Aug-11	$	0.23	30-Jun-09
12	Issued 20 March 2009	20-Mar-10	31-Aug-11	$	0.23	31-Dec-09
13	Issued 23 July 2009	23-Jul-09	30-Jun-13	$	0.23	on grant date
14	Issued 23 July 2009	23-Jul-09	30-Jun-13	$	0.23	31-Dec-09
15	Issued 23 July 2009	23-Jul-09	30-Jun-13	$	0.23	30-Jun-10
16	Issued 23 July 2009	23-Jul-09	30-Jun-13	$	0.22	31-Dec-10
17	Issued 23 July 2009	23-Jul-09	30-Jun-13	$	0.22	30-Jun-11
18	Issued 27 January 2010	23-Nov-09	30-Nov-13	$	0.70	on grant date
19	Issued 27 January 2010	23-Nov-09	30-Nov-13	$	0.70	30-Jun-10
20	Issued 27 January 2010	23-Nov-09	30-Nov-13	$	0.69	31-Dec-10
21	Issued 27 January 2010	23-Nov-09	30-Nov-13	$	0.67	30-Jun-11
22	Issued 27 January 2010	23-Nov-09	30-Nov-13	$	0.66	31-Dec-11
23	Issued 27 January 2010	8-Jan-10	7-Jul-11	$	0.50	30-Jun-10

There are no performance criteria that need to be met in relation to options granted under series 1 to 23 before the beneficial interest vests in the recipient. However, key management personnel receiving options under series 1 to 23 are only entitled to receive the beneficial interest under the option if they continue to be employed with the company at the time the option vests.

The following grants of share based payment compensation to key management personnel relate to the current financial year:

		During the financial year				
Name	Options series (as per previous table)	No. granted	No. Vested and exercisable	% of grant vested	% of grant forfeited	% of compensation for the year consisting of options
Peter Langworthy	13,14,15,16,17	4,000,000	2,500,000	63%	N/A	69%
Brian Dawes	13,14,15,16,17	2,000,000	1,250,000	63%	N/A	74%
Daniel Madden	18,19,20,21,22	1,000,000	400,000	40%	N/A	80%
Harry Cornelius	23	100,000	100,000	100%	N/A	18%

The assessed fair value at grant date of options granted to the individuals in the above table is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this remuneration report. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share and the risk free rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 are as follows:

Inputs into model	Option series (as per previous table)							
	13-14	15	16-17	18-19	20	21	22	23
Exercise price	$ 0.50	$ 0.60	$ 0.70	$ 1.00	$ 1.10	$ 1.20	$ 1.30	$ 1.36
Grant date	23-Jul-09	23-Jul-09	23-Jul-09	23-Jul-09	23-Jul-09	23-Nov-09	23-Nov-09	23-Nov-09
Expiry date	30-Jun-13	30-Jun-13	30-Jun-13	30-Jun-13	30-Jun-13	30-Nov-13	30-Nov-13	30-Nov-13
Share price at grant	$ 0.33	$0.33	$0.33	$0.95	$0.95	$0.95	$0.95	$1.08
Expected volatility (%)	114%	114%	114%	112%	112%	112%	112%	115%
Risk-free interest rate (%)	4.16%	4.16%	4.16%	5.01%	5.01%	5.01%	5.01%	4.70%

During the year, no key management personnel exercised options that were granted to them as part of their compensation in that year.

Value of options issued to directors and executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified directors and executives:

Name	Value of options granted at the grant date (i) $	Value of options exercised at the exercise date $	Value of options lapsed at the date of lapse $	Total $
Peter Langworthy	903,040	-	-	903,040
Brian Dawes	451,520	-	-	451,520
Daniel Madden	681,000	-	-	681,000
Harry Cornelius	50,000	-	-	50,000

(i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

Key terms of employment contracts:

Remuneration and other terms of employment for Gary Lethridge, Managing Director, are formalised in a letter agreement. Major provisions of this agreement are set out below:

- Base fee reviewed annually, currently $350,000 per annum (exclusive of superannuation entitlements).
- Three year employment contract commencing 2 February 2009, with an election for a further period of 2 years.
- Notice period of three months.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, at the end of the notice period is three months salary. Where the Company elects to dispense with the notice period and terminate employment, six months salary applies.

Remuneration and other terms of employment for Peter Langworthy, Executive/Technical Director, are formalised in a letter agreement. Major provisions of this agreement are set out below:

- Base fee reviewed annually, currently $280,000 per annum (exclusive of superannuation entitlements).
- Employment contract is ongoing and is reviewed and extended annually.
- Notice period of three months.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, at the end of the notice period is three months salary. Where the Company elects to dispense with the notice period and terminate employment, six months salary applies.

Remuneration and other terms of employment for Brian Dawes, Executive Director, are formalised in a letter agreement. Major provisions of this agreement are set out below:

- Consultancy fee basis, currently at $135 per hour (exclusive of superannuation entitlements).
- Notice period of three months.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, at the end of the notice period is three months average consultancy fees based on the previous six months. Where the Company elects to dispense with the notice period and terminate employment, six months average consultancy fees apply.

Remuneration and other terms of employment for Harry Cornelius, Exploration Manager, are formalised in a letter agreement. Major provisions of this agreement are set out below:

- Base fee reviewed annually, currently $180,000 per annum (exclusive of superannuation entitlements).
- Employment contract is ongoing and is reviewed and extended annually.
- Notice period of four weeks.
- Employment may be terminated by either the employee or the Company giving four weeks notice in writing. Alternatively, the employment may be terminated by the Company providing paid compensation instead of the required period of notice. In the event of serious misconduct the Company may terminate the employment without notice or compensation.

Remuneration and other terms of employment for Daniel Madden, Chief Financial Officer and Company Secretary, are formalised in a letter agreement. Major provisions of this agreement are set out below:

- Base fee reviewed annually, currently $175,000 per annum (exclusive of superannuation entitlements).
- Employment contract is ongoing and is reviewed and extended annually.
- Notice period of three months.
- Employment may be terminated by either the employee or the Company giving three months notice in writing. Alternatively, the employment may be terminated by the Company providing paid compensation instead of the required period of notice. In the event of serious misconduct the Company may terminate the employment without notice or compensation.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Gary Lethridge

Managing Director

Perth, 24 September 2010

AUDITOR'S INDEPENDENCE DECLARATION

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Talisman Mining Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Talisman Mining Limited.

Perth, Western Australia	**L DI GIALLONARDO**
24 September 2010	**Partner, HLB Mann Judd**

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
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INDEPENDENT AUDITOR'S REPORT

HLB Mann Judd
Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
TALISMAN MINING LIMITED

Report on the Financial Report
We have audited the accompanying financial report of Talisman Mining Limited, which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Talisman Mining Limited, as set out on pages 35 to 60.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements of Talisman Mining Limited comply with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Opinion
In our opinion:

(a) the financial report of Talisman Mining Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 26 to 30 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion the Remuneration Report of Talisman Mining Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
24 September 2010

L DI GIALLONARDO
Partner

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DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements, notes and additional disclosures of the Company are in accordance with the Corporations Act 2001, including:

i. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

ii. giving a true and fair view of the company's financial position as at 30 June 2010 and performance for the year then ended.

(c) in the directors' opinion the attached financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

Gary Lethridge

Managing Director

Perth, 24 September 2010

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	30-Jun-10 $	30-Jun-09 $
Continuing operations			
Other income	3	675,187	245,633
Employee benefits expense	4	(3,164,385)	(2,375,054)
Exploration expenditure expensed as incurred		(296,769)	(596,190)
Impairment of exploration expenditure		(3,319,635)	(302,098)
Occupancy expenses		(216,499)	(160,616)
Administrative expenses		(669,731)	(565,631)
Depreciation and amortisation expense		(54,554)	(49,158)
Finance costs		(773)	(2,772)
Provision for impairment of investment in associate		-	(431)
Loss before income tax expense		**(7,047,159)**	**(3,806,317)**
Income tax benefit	5	152,773	187,565
Loss after tax from continuing operations		(6,894,386)	(3,618,752)
Net loss for the period		**(6,894,386)**	**(3,618,752)**
Other comprehensive income/loss			
Net change in the fair value of available-for-sale financial assets		(15,000)	-
Other comprehensive loss for the period, net of tax		**(15,000)**	**-**
Total comprehensive loss for the period		**(6,909,386)**	**(3,618,752)**
Loss per share:			
Basic loss per share (cents per share)	16	7.09	4.75

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	30-Jun-10 $	30-Jun-09 $
Assets			
Current Assets			
Cash and cash equivalents	6	13,661,782	6,588,990
Trade and other receivables	7	348,942	112,225
Total Current Assets		14,010,724	6,701,215
Non-Current Assets			
Receivables	7	79,526	157,526
Other financial assets	8	135,000	-
Property, plant and equipment	9	239,760	118,926
Deferred exploration and evaluation expenditure	10	9,059,569	9,333,730
Total Non-Current Assets		9,513,855	9,610,182
Total Assets		23,524,579	16,311,397
Liabilities			
Current Liabilities			
Trade and other payables	11	418,570	109,373
Borrowings	12	509	5,483
Provisions	13	50,867	40,451
Total Current Liabilities		469,946	155,307
Non-Current Liabilities			
Borrowings	12	-	510
Total Non-Current Liabilities		-	510
Total Liabilities		469,946	155,817
Net Assets		**23,054,633**	**16,155,580**
Equity			
Issued capital	14	31,464,410	19,785,934
Reserves	15	5,745,532	3,630,569
Accumulated losses	15	(14,155,309)	(7,260,923)
Total Equity		**23,054,633**	**16,155,580**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital $	Accumulated Losses $	Asset Revaluation Reserve $	Share-based Payments Reserve $	Option Premium Reserve $	Total Equity $
Balance at 1 July 2008	16,458,284	(3,642,171)	-	1,613,770	176,326	14,606,209
Loss for the period	-	(3,618,752)	-	-	-	(3,618,752)
Total comprehensive income for the period	-	(3,618,752)	-	-	-	(3,618,752)
Shares issued during the year	3,430,837	-	-	-	-	3,430,837
Share issue costs	(103,187)	-	-	-	-	(103,187)
Recognition of share-based payments	-	-	-	1,840,473	-	1,840,473
Balance at 30 June 2009	19,785,934	(7,260,923)	-	3,454,243	176,326	16,155,580
Balance at 1 July 2009	19,785,934	(7,260,923)	-	3,454,243	176,326	16,155,580
Loss for the period	-	(6,894,386)	-	-	-	(6,894,386)
Net change in fair value of available-for-sale financial assets	-	-	(15,000)	-	-	(15,000)
Total comprehensive income for the period	-	(6,894,386)	(15,000)	-	-	(6,909,386)
Shares issued during the year	11,925,655	-	-	-	-	11,925,655
Share issue costs	(328,362)	-	-	-	-	(328,362)
Recognition of share-based payments	-	-	-	2,211,146	-	2,211,146
Transfer on exercise of options	81,183	-	-	(62,400)	(18,783)	-
Balance at 30 June 2010	31,464,410	(14,155,309)	(15,000)	5,602,989	157,543	23,054,633

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	30-Jun-10 $	30-Jun-09 $
		Inflows/(Outflows)	
Cash flows from operating activities			
Payments to suppliers and employees		(1,732,555)	(1,165,199)
Finance costs		(773)	(2,772)
Interest received		429,743	218,001
Research and development tax rebate received		152,773	334,318
Net cash used in operating activities	6	(1,150,812)	(615,652)
Cash flows from investing activities			
Payments for property, plant and equipment		(175,388)	(35,273)
Proceeds from sales of property, plant and equipment		-	1,000
Payments for exploration and evaluation expenditure		(3,139,817)	(3,456,479)
Proceeds from joint venture agreement		50,000	-
Net cash used in investing activities		(3,265,205)	(3,490,752)
Cash flows from financing activities			
Proceeds from issue of shares		11,825,655	3,430,837
Payments for share issue costs		(331,362)	(103,187)
Payment of finance lease liabilities		(5,484)	(21,154)
Net cash provided by financing activities		11,488,809	3,306,496
Net increase/(decrease) in cash held		7,072,792	(799,908)
Cash and cash equivalents at the beginning of the period		6,588,990	7,388,898
Cash and cash equivalents at the end of the period	6	13,661,782	6,588,990

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Talisman Mining Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol "TLM" and "TLMO") and operating in Australia.

Talisman Mining Limited's registered office and its principal place of business are as follows:

Registered office	Principal place of business
6 Centro Avenue Subiaco Western Australia 6008	6 Centro Avenue Subiaco Western Australia 6008

The entity's principal activity is the exploration for base metals, iron ore and gold in Australia.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial report was authorised for issue on 24 Septermber 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The company is a listed public company, incorporated in Australia and operating in Australia. The entity's principal activities are the exploration of base and precious minerals.

The Company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black and Scholes model, using the assumptions detailed in Note 19.

Exploration and evaluation costs carried forward

The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of "fair value less costs to sell" and "value in use". In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

Impairment of available-for-sale financial assets

The Company follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Talisman Mining Limited.

The Company has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Company as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

Adoption of new and revised Accounting Standards

Changes in accounting policy on initial application of Accounting Standards

In the year ended 30 June 2010, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

- Segment reporting – *new AASB 8 Operating Segments*
- Financial Instruments – *revised AASB 7 Financial Instruments: Disclosures*

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to the Company accounting policies.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a. Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date, they are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

c. Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Available for sale investments

Available for sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

d. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

e. Impairment of assets

The Company assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

f. Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

g. Exploration and evaluation expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) The rights to tenure of the area of interest are current; and

(ii) At least one of the following conditions is also met:

  a) The exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

  b) Exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

h. Joint ventures

The Company has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Company recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Company also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

i. Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

j. Presentation currency

The entity operates entirely within Australia and the presentation currency is Australian dollars.

k. Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment	4-25 years
Motor vehicle	8-10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

l. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

m. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

n. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

o. Share-based payment transactions

(i) Equity settled transactions

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black and Scholes model, further details of which are given in Note 19.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects:

(i) the extent to which the vesting period has expired; and

(ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of loss per share (see Note 16).

Equity-settled share-based payments are measured at fair value at the date of grant by use of the Black and Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

p. Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

q. Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. OTHER INCOME

An analysis of the Company's other income for the year is as follows:

	30-Jun-10 $	30-Jun-09 $
Bank interest receivable	475,187	245,633
Other income	200,000	-
	675,187	245,633

4. EXPENSES

	30-Jun-10 $	30-Jun-09 $
Loss for the year includes the following expenses:		
Share based payment expense	2,211,146	1,840,472
Operating lease rental expense	216,499	160,616

5. INCOME TAX

	30-Jun-10 $	30-Jun-09 $
Income tax recognised in profit or loss		
The major components of tax expense are:		
Current tax benefit	152,773	187,565
Total tax expense/(income)	152,773	187,565
Attributable to:		
Continuing operations	152,773	187,565
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Accounting loss before income tax	(7,047,159)	(3,806,317)
Accounting profit before income tax		
Income tax benefit calculated at 30%	(2,114,148)	(1,141,895)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income		
Impairment expense	995,891	90,629
Share-based payments	663,344	552,142
Other	(1,210)	(7,585)
Effect of tax concessions (R&D benefit)	152,773	187,565
Effect of unused losses not recognised as deferred tax assets	456,123	506,709
Income tax benefit reported in the statement of comprehensive income	152,773	187,565

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	30-Jun-10 $	30-Jun-09 $
Unrecognised deferred tax assets and liabilities		
Deferred tax assets/liabilities have not been recognised in respect of the following items:		
Temporary differences arising from exploration	(2,848,852)	(2,800,119)
Deductible temporary differences	(2,848)	16,830
Tax losses	5,041,290	3,667,417
	2,189,590	884,128

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits thereof.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

	30-Jun-10 $	30-Jun-09 $
Cash at bank and on hand	597,455	1,088,990
Short-term deposits	13,064,327	5,500,000
	13,661,782	6,588,990

(b) Non-cash financing and investing activities

	30-Jun-10 $	30-Jun-09 $
Available for sale investment acquired as part of farm out	150,000	-

(c) Reconciliation of loss for the year to net cash flow from operating activities

	30-Jun-10 $	30-Jun-09 $
Loss for the year after tax	(6,894,386)	(3,618,752)
Shares acquired as part of joint venture agreement	(150,000)	-
Depreciation	54,554	49,158
Provision for impairment of investment in associate	-	431
Exploration expenditure expensed as incurred	296,769	596,190
Impairment of exploration	3,319,635	302,098
Equity settled share-based payment	2,211,146	1,840,473
Loss on sale	-	3,631
Changes in net assets and liabilties		
(Increase)/decrease in assets		
Trade and other receivables	(210,344)	235,682
Increase/(decrease) in liabilities		
Trade and other payables	211,440	(38,446)
Provisions	10,374	13,883
Net cash used in operating activities	(1,150,812)	(615,652)

7. TRADE AND OTHER RECEIVABLES

	30-Jun-10 $	30-Jun-09 $
Current		
Goods and services tax recoverable	138,534	45,152
Other debtors	847	2,514
Other debtors -security bonds	85,600	-
Prepayments and accrued income	123,961	64,559
	348,942	112,225
Non Current		
Other debtors - security bonds	79,526	157,526

8. OTHER FINANCIAL ASSETS

	30-Jun-10 $	30-Jun-09 $
Non Current		
Available-for-sale listed investments carried at fair value	135,000	-

Available for sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

9. PROPERTY, PLANT AND EQUIPMENT

	Office furniture and equipment $	Motor vehicles $	Total $
Year ended 30 June 2010			
At 1 July 2009, net of accumulated depreciation	86,721	32,205	118,926
Additions	127,559	47,829	175,388
Depreciation charge for the year	(50,621)	(3,933)	(54,554)
	163,659	76,101	239,760
Year ended 30 June 2009			
At 1 July 2008, net of accumulated depreciation	87,224	50,220	137,444
Additions	29,996	5,275	35,271
Disposals	(508)	(4,123)	(4,631)
Depreciation charge for the year	(29,991)	(19,167)	(49,158)
	86,721	32,205	118,926
At 30 June 2010			
Cost or fair value	302,645	109,345	411,990
Accumulated depreciation	(138,986)	(33,244)	(172,230)
Net carrying amount	163,659	76,101	239,760
At 30 June 2009			
Cost or fair value	175,086	61,516	236,602
Accumulated depreciation	(88,365)	(29,311)	(117,676)
Net carrying amount	86,721	32,205	118,926

The carrying value of plant and equipment held under finance lease and hire purchase contracts as at 30 June 2010 is $30,269 (2009: $32,205).

10. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	30-Jun-10 $	30-Jun-09 $
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	9,333,730	6,930,307
Expenditure incurred	3,045,474	2,705,521
	12,379,204	9,635,828
Expenditure written off	(3,319,635)	(302,098)
	9,059,569	9,333,730

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation or sale of the respective areas.

11. TRADE AND OTHER PAYABLES

	30-Jun-10 $	30-Jun-09 $
Current		
Trade payables	195,004	39,627
Accruals	-	16,800
Other payables	223,566	52,946
	418,570	109,373

Trade payables are non-interest bearing and are normally settled on 30 day terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. BORROWINGS

	30-Jun-10 $	30-Jun-09 $
Current		
Lease liabilities	509	5,483
Non Current		
Lease liabilities	-	510

Refer to Note 17 for further details of lease liabilities.

13. PROVISIONS

	30-Jun-10 $	30-Jun-09 $
Current		
Employee benefits	50,867	40,451

The current provision for employee benefits relates to annual leave entitlements accrued to employees.

14. ISSUED CAPITAL

	30-Jun-10		30-Jun-09	
	No.	**$**	**No.**	**$**
Ordinary shares				
Issued and fully paid			31,402,010	19,785,934
Movements in ordinary shares on issue				
At 1 July	86,782,503	19,785,934	75,288,047	16,458,284
Share placement at 30 cents	6,219,997	1,865,999	11,319,456	3,395,837
Share placement at 90 cents	10,572,227	9,515,004		
Exercise of listed options at 20 cents	1,703,261	340,652	175,000	35,000
Exercise of unlisted options at 25 cents	416,000	104,000		
Shares issued to acquire exploration tenements	129,870	100,000	-	-
Share issue costs	-	(328,362)	-	(103,187)
Transfer from share based payment reserve	-	62,400	-	-
Transfer from option premium reserve	-	18,783	-	-
At 30 June	105,823,858	31,464,410	86,782,503	19,785,934

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	No.	**$**
Movements in options over ordinary shares on issue		
At 1 July 2009	39,274,257	3,630,569
Directors' remuneration	6,000,000	1,577,892
Employees' remuneration	1,450,000	633,254
Transfer on exercise of listed options	(1,703,261)	(18,783)
Transfer on exercise of unlisted options	(416,000)	(104,000)
At 30 June 2010	44,604,996	5,718,932

Share options are exercisable on a 1:1 basis at various exercise prices. The options expire between 30/11/10 and 31/12/13. Further details of options granted to directors and employees are contained in note 19 to the financial statements.

15. ACCUMULATED LOSSES AND RESERVES

	30-Jun-10 $	30-Jun-09 $
Accumulated Losses		
Balance at beginning financial year	(7,260,923)	(3,642,171)
Net loss for the year	(6,894,386)	(3,618,752)
Balance at end of financial year	(14,155,309)	(7,260,923)

	30-Jun-10 $	30-Jun-09 $
Reserves		
Asset revaluation reserve	(15,000)	-
Share based payment reserve	5,602,989	3,454,243
Option premium reserve	157,543	176,326
Balance at end of financial year	5,745,532	3,630,569

Asset revaluation reserve
The asset revaluation reserve is used to record temporary fluctuations between the market value of available for sale investments and the acquisition price.

Share based payment reserve
The share based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 19 for further details of these plans.

Option premium reserve
The option premium reserve records the proceeds received on the issue of share options by the Company.

16. LOSS PER SHARE

Basic loss per share

	30-Jun-10 cents per share	30-Jun-09 cents per share
Basic loss per share	7.09	4.75

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	30-Jun-10 $	30-Jun-09 $
Net loss for the period	(6,894,386)	(3,618,752)

	30-Jun-10 No.	30-Jun-09 No.
Weighted average number of ordinary shares for the purpose of basic loss per share	97,257,829	76,241,298

Diluted loss per share

Diluted loss per share has not been calculated as it does not increase the loss per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. COMMITMENTS FOR EXPENDITURE

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are not provided for in the financial report and are payable as follows:

	30-Jun-10 $	30-Jun-09 $
Exploration expenditure		
Within one year	776,000	754,568
After one year but not more than five years	1,502,800	1,435,041
Greater than five years	-	-
	2,278,800	2,189,609

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Finance Leases

Finance leases relate to equipment with lease terms of 3 years. The Company has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

	30-Jun-10 $	30-Jun-09 $
Finance lease liabilities		
Within one year	518	6,218
After one year but not more than five years	-	518
Greater than five years	-	-
	518	6,736
Minimum future lease payments	518	6,736
Less future finance charges	(9)	(743)
Present value of minimum lease payments	509	5,993

Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual payments.

Operating Leases

Operating lease arrangements comprise an agreement for the rental of office space with a lease term of 5 years.

	30-Jun-10 $	30-Jun-09 $
Non-cancellable operating lease commitments		
Within one year	199,283	192,140
After one year but not more than five years	209,096	384,280
Greater than five years	-	-
	408,379	576,420

18. FINANCIAL INSTRUMENTS

(a) Introduction

The Company has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Capital risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk and the management of capital. Further quantitative disclosures are included throughout this note and the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company's aim is to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Categories of financial instruments

	30-Jun-10 $	30-Jun-09 $
Financial assets		
Loans and receivables	428,468	269,751
Cash and cash equivalents	13,661,782	6,588,990
Available-for-sale investments	135,000	-
	14,225,250	6,858,741
Financial liabilities		
Trade and other payables	418,570	109,373
Borrowings	509	5,993
Other financial liabilities	50,867	40,451
	469,946	155,817

Fair value of financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 2. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair value.

(c) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit Committee annually. The Company measures credit risk on a fair value basis.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) Liquidity Risk Management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity risk management is the responsibility of the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and identifying when further capital raising initiatives are required.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and interest risk table

The following tables detail the Company's remaining contractual maturity for it non-derivative financial assets and liabilities and has been prepared on the following basis:

- Financial assets – based on the undiscounted contractual maturities including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period; and
- Financial liabilities – based on undiscounted cash flows on the earliest date on which the Company can be required to pay, including both interest and principal cash flows.

	Less than 1 month $	1-3 months $	3 months to 1 Year $	1-5 years $	5 plus years $	No fixed term $	Total $
2010							
Financial Assets							
Non-interest bearing	139,758	-	-	-	-	-	139,758
Variable interest rate	596,532	-	-	-	-	-	596,532
Fixed interest rate	4,582,986	8,756,528	-	57,526	-	-	13,397,040
	5,319,276	8,756,528	-	57,526	-	-	14,133,330
Financial Liabilities							
Non-interest bearing	352,392	66,179	50,867	-	-	-	469,438
Fixed interest rate	518	-	-	-	-	-	518
	352,910	66,179	50,867	-	-	-	469,956

	Less than 1 month $	1-3 months $	3 months to 1 Year $	1-5 years $	5 plus years $	No fixed term $	Total $
2009	$	$	$	$	$	$	$
Financial Assets							
Non-interest bearing	673	47,666	-	-	-	-	48,339
Variable interest rate	1,088,317	-	-	-	-	-	1,088,317
Fixed interest rate	-	5,561,847	-	157,526	-	-	5,719,373
	1,088,990	5,609,513	-	157,526	-	-	6,856,029
Financial Liabilities							
Non-interest bearing	66,418	42,955	40,451	-	-	-	149,824
Fixed interest rate	518	1,554	4,146	518	-	-	6,736
	66,936	44,509	44,597	518	-	-	156,560

(e) Interest rate risk

The Company is exposed to interest rate risk as it has borrowed funds at (fixed/ variable) interest rates. The Company manages this risk by keeping such liabilities to a financially tolerable level and taking into account expected movements in interest rates.

Some of the Company's assets are subject to interest rate risk but the Company is not dependent on this income. Interest income is only incidental to the Company's operations and operating cashflows.

Interest rate sensitivity analysis
The sensitivity analysis of the Company's exposure to interest rate risk at the reporting date has been determined based on a change of 50 basis points in interest rates taking place at the beginning of the financial year and held constant throughout the year.

At reporting date, if interest rates had been 50 basis points higher and all other variables were constant, the Company's net loss would have decreased by $5,442 (2009: $2,983). If interest rates had decreased, there would be an equal and opposite impact on the loss.

18. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure of the Company consists of equity only, comprising issued capital and reserves, net of accumulated losses. The Company's policy is to use capital market issues to meet the funding requirements of the Company.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

(g) Fair value of financial instruments

As of 1 July 2009 the Company has adopted the amendments to AASB 7 Financial Instruments: Disclosures which require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2010 and 30 June 2009.

	Level 1 $	Level 2 $	Level 3	Total $
2010				
Assets				
Available-for-sale financial assets	135,000	-	-	135,000
2009				
Assets				
Available-for-sale financial assets	-	-	-	-

19. SHARE BASED PAYMENTS

Employee Share Options

The Company has an Employee Share Option Plan ("ESOP") for executives and employees of the Company. In accordance with the provisions of the ESOP, as approved by shareholders at a previous annual general meeting, executives and employees may be granted options at the discretion of the directors.

Each employee share option converts into one ordinary share of Talisman Mining Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is at the sole discretion of the directors subject to the total number of outstanding options being issued under the ESOP not exceeding 5% of the Company's issued capital at any one time.

Options issued to directors are not issued under the ESOP but are subject to approval by shareholders and attach vesting conditions as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. SHARE BASED PAYMENTS (CONTINUED)

Share based payment arrangements in existence during the period

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option Series	Number	Grate date	Expiry date	Exercise price $	Fair Value at grant date $
1	1,750,000	22/11/06	31/12/10	0.25	0.110
2	472,000	11/04/07	31/12/10	0.25	0.082
3	3,000,000	3/09/07	31/12/10	0.20	0.060
4	1,000,000	15/02/08	31/12/10	1.20	0.466
5	400,000	19/05/08	31/12/10	1.20	0.317
6	1,500,000	19/05/08	30/11/10	1.00	0.336
7	1,500,000	19/05/08	30/11/10	1.20	0.310
8	1,500,000	19/05/08	30/11/10	1.60	0.269
9	1,500,000	19/05/08	30/11/10	2.20	0.225
10	500,000	19/05/08	31/05/11	1.00	0.372
11	500,000	19/05/08	31/05/11	1.20	0.348
12	500,000	19/05/08	31/05/11	1.60	0.310
13	500,000	19/05/08	31/05/11	2.20	0.268
14	2,000,000	17/05/09	31/08/11	0.22	0.226
15	1,000,000	17/05/09	31/08/11	0.22	0.226
16	1,000,000	17/05/09	31/08/11	0.22	0.226
17	750,000	23/07/09	30/06/13	0.50	0.234
18	1,500,000	23/07/09	30/06/13	0.50	0.234
19	1,500,000	23/07/09	30/06/13	0.60	0.225
20	1,500,000	23/07/09	30/06/13	0.70	0.218
21	750,000	23/07/09	30/06/13	0.70	0.218
22	200,000	23/11/09	30/11/13	1.00	0.695
23	200,000	23/11/09	30/11/13	1.00	0.695
24	200,000	23/11/09	30/11/13	1.10	0.685
25	200,000	23/11/09	30/11/13	1.20	0.670
26	200,000	23/11/09	30/11/13	1.30	0.660
27	50,000	7/12/09	30/06/13	0.95	0.560
28	50,000	7/12/09	30/06/13	0.95	0.560
29	50,000	7/12/09	30/06/13	0.95	0.560
30	50,000	7/12/09	30/06/13	0.95	0.560
31	212,500	8/01/10	7/07/11	1.36	0.500
32	25,000	27/04/10	26/10/11	1.14	0.400
33	25,000	27/04/10	26/04/13	1.32	0.560

19. SHARE BASED PAYMENTS (CONTINUED)

Share based payment arrangements in existence during the period (continued)

Vesting dates of option series
1,2,3,4,6,14,17,22 and 27: Options vested at date of issue.
5: Options vest 30 April 2009
7 and 10: Options vest 30 November 2008
8: Options vest 30 November 2009
9: Options vest 30 September 2010
11: Options vest 31 May 2009
12: Options vest 31 May 2010
13: Options vest 31 March 2011
15: Options vest 30 June 2009
16 and 18: Options vest 31 Dec 2009
19,23,28, 31 and 32: Options vest 30 June 2010
26: Options vest 31 December 2011
20,24 and 29: Options vest 31 December 2010
21, 25, 30 and 33: Options vest 30 June 2011

The fair value of the share options granted during the financial year is $2,277,810 (2008: $904,720). Options were priced using a Black & Scholes pricing model. Expected volatility is based on the expected movement of the underlying share price around its average share price over the expected term of the option. Based on historical experience, the directors have determined the expected period of exercise to be similar to the option life.

The following tables list the inputs to the model:

	Option series										
Inputs into model	**17-18**	**19**	**20-21**	**22-23**	**24**	**25**	**26**	**27-30**	**31**	**32**	**33**
Dividend yield (%)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility (%)	114%	114%	114%	112%	112%	112%	112%	113%	115%	120%	120%
Risk-free interest rate (%)	4.16%	4%	4%	5.01%	5%	5%	5%	5.06%	4.70%	4.99%	5.28%
Expected life of option (yrs)	3.94	3.94	3.94	4.02	4.02	4.02	4.02	3.56	1.49	1.50	3.00
Exercise price	$0.50	$0.60	$0.70	$1.00	$1.10	$1.20	$1.30	$0.95	$1.36	$1.14	$1.32
Grant date share price	$0.33	$0.33	$0.33	$0.95	$0.95	$0.95	$0.95	$0.81	$1.08	$0.87	$0.87

The following reconciles the outstanding share options granted as share based payments at the beginning and end of the financial year.

	30 June 2010		30 June 2009	
	Number of options	**Weighted average exercise price$**	**Number of options**	**Weighted average exercise price$**
Outstanding at the beginning of the year	22,454,250	0.81	19,454,250	0.81
Granted during the year	7,462,500	0.70	4,000,000	0.22
Exercised during the year	(416,000)	0.25	-	-
Expired during the year	(12,500)	1.36	(1,000,000)	1.90
Outstanding at the end of the year	29,488,250	0.68	22,454,250	0.81
Exercisable at end of the financial year	26,513,250	0.66	18,454,250	0.81

The weighted average fair value of options granted during the year was $0.31.

Exercised during the financial year
The 416,000 options exercised during the year were exercised on 24 February at an exercise price of $0.25 per share. Options exercised were from series 1 options issued on 22 November 2006. The share price at exercise date was $0.97.

Balance at end of the financial year
The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 1.24 years (2009: 1.64 years). The range of exercises prices for options outstanding at the end of the year was $0.20 - $2.20 (2009: $0.20 - $2.20).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. DIRECTORS AND EXECUTIVES DISCLOSURES

Details of Key Management Personnel

The key management personnel of Talisman Mining Limited during the year or since the end of the year were:

Directors
Alan Senior Chairman
Gary Lethridge Managing Director
Brian Dawes Executive Director
Peter Langworthy Technical Director
Karen Gadsby Non Executive Director

Executives
Harry Cornelius Exploration Manager
Daniel Madden Chief Financial Officer and Company Secretary

Key management personnel compensation is disclosed in the Remuneration Report which forms part of the Directors Report and has been audited.

Shareholdings of Key Management Personnel

	Opening balance at 1 July No.	Balance at date appointment No.	Shares recieved on exercise of options No.	Net other change No.	Balance on resignation No.	Balance at 30 June No.
2010						
Directors						
Alan Senior	50,000	N/A	-	66,666	N/A	116,666
Gary Lethridge	-	N/A	-	666,667	N/A	666,667
Brian Dawes	20,000	N/A	-	333,333	N/A	353,333
Peter Langworthy	-	N/A	-	666,667	N/A	666,667
Karen Gadsby	78,000	N/A	-	233,334	N/A	311,334
Executives						
Harry Cornelius	26,000	N/A	16,000	(26,000)	N/A	16,000
Daniel Madden	-	-	-	-	N/A	-
Total	174,000	-	16,000	1,940,667	-	2,130,667
2009						
Directors						
Alan Senior	-	N/A	-	50,000	N/A	50,000
Gary Lethridge	N/A	-	-	-	N/A	-
Brian Dawes	N/A	20,000	-	-	N/A	20,000
Peter Langworthy	N/A	-	-	-	N/A	-
Karen Gadsby	-	N/A	-	78,000	N/A	78,000
Steve Elliott (i)	7,200,002	N/A	-	-	7,200,002	N/A
Mick Bunyard (ii)	-	N/A	-	-	-	N/A
Executives						
Harry Cornelius	26,000	N/A	-	-	N/A	26,000
Total	7,226,002	20,000	-	128,000	7,200,002	174,000

(i) Resigned 24 November 2008
(ii) Resigned 5 June 2009

20. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

Option holdings of Key Management Personnel

	Opening balance at 1 July No.	Granted as remuneration No.	Options Exercised No.	Net other change No.	Balance on resignation No.	Balance at 30 June No.	Vested but not exercisable No.	Vested duing the year No.	Vested and exercisable as at 30 June No.
2010									
Directors									
Alan Senior	4,000,000	-	-	-	N/A	4,000,000	-	1,000,000	3,000,000
Gary Lethridge	4,000,000	-	-	-	N/A	4,000,000	-	1,000,000	4,000,000
Brian Dawes	-	2,000,000	-	-	N/A	2,000,000	-	1,250,000	1,250,000
Peter Langworthy	-	4,000,000	-	-	N/A	4,000,000	-	2,500,000	2,500,000
Karen Gadsby	2,000,000	-	-	-	N/A	2,000,000	-	500,000	1,500,000
Executives									
Harry Cornelius	774,000	100,000	(16,000)	-	N/A	858,000	-	100,000	844,000
Daniel Madden	-	1,000,000	-	-	N/A	1,000,000	-	400,000	400,000
Total	10,774,000	7,100,000	(16,000)	-	-	17,858,000	-	6,750,000	13,494,000
2009									
Directors									
Alan Senior	4,000,000	-	-	-	N/A	4,000,000	-	1,000,000	2,000,000
Gary Lethridge	N/A	4,000,000	-	-	N/A	4,000,000	-	3,000,000	3,000,000
Brian Dawes	N/A	-	-	-	N/A	-	-	-	-
Peter Langworthy	N/A	-	-	-	N/A	-	-	-	-
Karen Gadsby	2,000,000	-	-	-	N/A	2,000,000	-	1,000,000	1,000,000
Steve Elliott (i)	1,666,668			-	1,666,668	N/A	N/A	-	N/A
Mick Bunyard (ii)	2,028,000	-	-	(1,000,000)	1,028,000	N/A	N/A	500,000	N/A
Executives									
Harry Cornelius	774,000	-	-	-	-	774,000	-	300,000	744,000
Total	10,468,668	4,000,000	-	(1,000,000)	2,694,668	10,774,000	-	5,800,000	6,744,000

(i) Resigned 24 November 2008

(ii) Resigned 5 June 2009

Further details of the employee share option plan and of share options granted during the 2010 and 2009 financial years are contained in note 19 of the financial statements.

Other transactions with Key Management Personnel

There were no other transactions with key management personnel of the Company during the 2010 and 2009 financial years.

21. SEGMENT REPORTING

The Company continues to operate in one geographical segment, being Western Australia and in one operating category, being mineral exploration and evaluation.

The chief operating decision-maker has been identified as the Board of Talisman Mining Limited and information reported to the Board for the purpose of resource allocation and assessment of performance is focused on mineral exploration and evaluation within Western Australia. Consequently the Company reports within one segment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the opinion of the Directors there are no contingent liabilities as at 30 June 2010 and no contingent liabilities were incurred in the interval between the period end and the date of this financial report.

23. REMUNERATION OF AUDITOR

	30-Jun-10 $	30-Jun-09 $
Audit or review of the financial report	25,200	21,265

The auditor of Talisman Mining Limited is HLB Mann Judd.

24. EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material events subsequent to reporting date.

ADDITIONAL SECURITIES EXCHANGE INFORMATION

AS AT 20 SEPTEMBER 2010

1. Number of holders of equity securities

(a) Distribution of holders of equity securities

	Fully paid ordinary shares	Number of holders	Listed options	Number of holders
1 - 1,000	128,122	196	7,558	17
1,001 - 5,000	2,307,755	721	207,189	59
5,001 - 10,000	4,010,504	471	289,769	34
10,000 - 100,000	27,055,991	748	4,889,128	127
100,001 and over	73,875,634	142	16,351,204	42

(b) Voting rights

The voting rights attached to each class of equity securities are as follows:

Ordinary Shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options

Options do not carry a right to vote.

(c) Less than marketable parcel of shares

The number of shareholders holding less than a marketable parcel is 47 given a share value of $1.07 cents per share.

(d) Substantial shareholdings

Ordinary shareholders	Fully paid ordinary shares	
	Number	%
Mr Kerry Harmanis	16,738,452	15.59

2. Company Secretary

The name of the company secretary is Daniel Madden.

3. Registered office and principle administrative office

Registered and principle administrative office

Ground Level, 6 Centro Avenue

SUBIACO WA 6008

Telephone (61 8) 9380 4230

Registered securities are held at the following address

Advanced Share Registry Services

150 Stirling Highway

NEDLANDS WA 6009

Telephone (61 8) 9389 8033

4. Securities exchange listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited

5. Restricted securities

There are no restricted securities or securities in voluntary escrow at the date of this report.

ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

AS AT 20 SEPTEMBER 2010

6. Twenty largest holders of ordinary shares

	Ordinary shareholders	Number	%
1	Tyche Holdings Pty Ltd (Bournite A/C)	9,910,001	9.23
2	UBS Wealth Mangement Australia Nominees	7,682,570	7.16
3	Mr Steven James Elliot	4,100,002	3.82
4	NK WA Pty Ltd	2,940,000	2.74
5	Harman Nominees Pty Ltd	2,569,111	2.39
6	Equity Trustees Ltd	2,357,410	2.20
7	HSBC Custody Nominees	2,310,467	2.15
8	Frollo Enterprises Ltd	2,000,000	1.86
9	Mr Graham Geoffrey Walker & Mrs Thelma Jean Walker (Walker Super Fund A/C)	1,925,000	1.79
10	Bitutti Pty Ltd	1,700,000	1.58
11	Redcode Pty Ltd	1,675,000	1.56
12	Mr Graham Geoffrey Walker & Mrs Thelma Jean Walker	1,500,000	1.40
13	Colbern Fiduciary Nominees Pty Ltd	1,419,340	1.32
14	Mr Paul Rozier Oost	1,200,000	1.12
15	Citicorp Nominees Pty Ltd	1,188,231	1.11
16	Foreign Dimensions Pty Ltd	1,000,000	0.93
17	Mrs Jasmine Kailis	900,000	0.84
18	Lippo Securities Nominees	800,000	0.75
19	Mr Peter John Apostles and Mrs Margaret Apostles	705,000	0.66
20	Metalmite Pty Ltd	700,000	0.65

7. Twenty largest holders of listed options

	Optionholders	Number	%
1	Hawera Pty Ltd	3,283,333	10.97
2	Redcode Pty Ltd	2,000,000	9.20
3	Arcaro Holdings Pty Ltd	1,563,335	7.04
4	Mr Graham Geoffrey Walker & Mrs Thelma Jean Walker (Walker Super Fund A/C)	975,000	4.48
5	Mr Graham Geoffrey Walker & Mrs Thelma Jean Walker	833,334	3.83
6	Jem Nominees Pty Ltd	595,446	2.74
7	Mr Michael Don Grubsia & Mrs Lyentte Joy Grubsia (Super A/C)	500,000	2.30
8	Timmid Pty Ltd	415,194	1.91
9	Temmedo Pty Ltd	363,000	1.67
10	Strand Corporation Pty Ltd	327,501	1.51
11	Metalmite Pty Ltd	303,333	1.40
12	Mr Ian Barrie Murie & Mrs Tania Murie (IB & T Murie Super Fund A/C)	300,000	1.38
13	Mr Philip Charles Langdon & Mrs Robyn Margaret Langdon	289,739	1.33
14	Mrs Jillianne Muriel Freeman (The Jill Freeman Family A/C)	277,541	1.28
15	Bam NR 1 Pty Ltd (The Moran Super Fund A/C)	277,500	1.28
16	Regent Corporation 2001 Pty Ltd	251,633	1.16
17	Fats Pty Ltd	250,000	1.15
18	Mount Street Investments Pty Ltd (MJ Blake Super A/C)	250,000	1.15
19	Amarilo Investments Pty Ltd (PJ Hunt Family A/C)	208,334	0.96
20	Mr David George Craggs & Mrs Angela Norma Craggs	200,000	0.92

ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

AS AT 20 SEPTEMBER 2010

8. Unquoted equity securities

Class		Exercise price	Expiry date	Unlisted Options	
				Number	Number of Holders
1	Unlisted options	$0.25	31-Dec-10	1,456,000	4
2	Unlisted options	$1.20	31-Dec-10	1,400,000	7
3	Unlisted options	$1.00	30-Nov-10	1,500,000	2
4	Unlisted options	$1.20	30-Nov-10	1,500,000	2
5	Unlisted options	$1.60	30-Nov-10	1,000,000	1
6	Unlisted options	$2.20	30-Nov-10	1,000,000	1
7	Unlisted options	$1.00	31-May-11	500,000	1
8	Unlisted options	$1.20	31-May-11	500,000	1
9	Unlisted options	$1.60	31-May-11	500,000	1
10	Unlisted options	$2.20	31-May-11	500,000	1
11	Unlisted options	$0.22	31-Aug-11	4,000,000	1
12	Unlisted options	$0.50	30-Jun-13	2,250,000	2
13	Unlisted options	$0.60	30-Jun-13	1,500,000	2
14	Unlisted options	$0.70	30-Jun-13	2,250,000	2
15	Unlisted options	$1.00	30-Nov-13	400,000	1
16	Unlisted options	$1.10	30-Nov-13	200,000	1
17	Unlisted options	$1.20	30-Nov-13	200,000	1
18	Unlisted options	$1.30	30-Nov-13	200,000	1
19	Unlisted options	$0.95	30-Jun-13	200,000	1
20	Unlisted options	$1.36	7-Jul-11	200,000	1
21	Unlisted options	$1.14	26-Oct-11	25,000	3
22	Unlisted options	$1.32	26-Apr-13	25,000	1

All options have no voting rights.

Unquoted equity security holdings greater than 20%

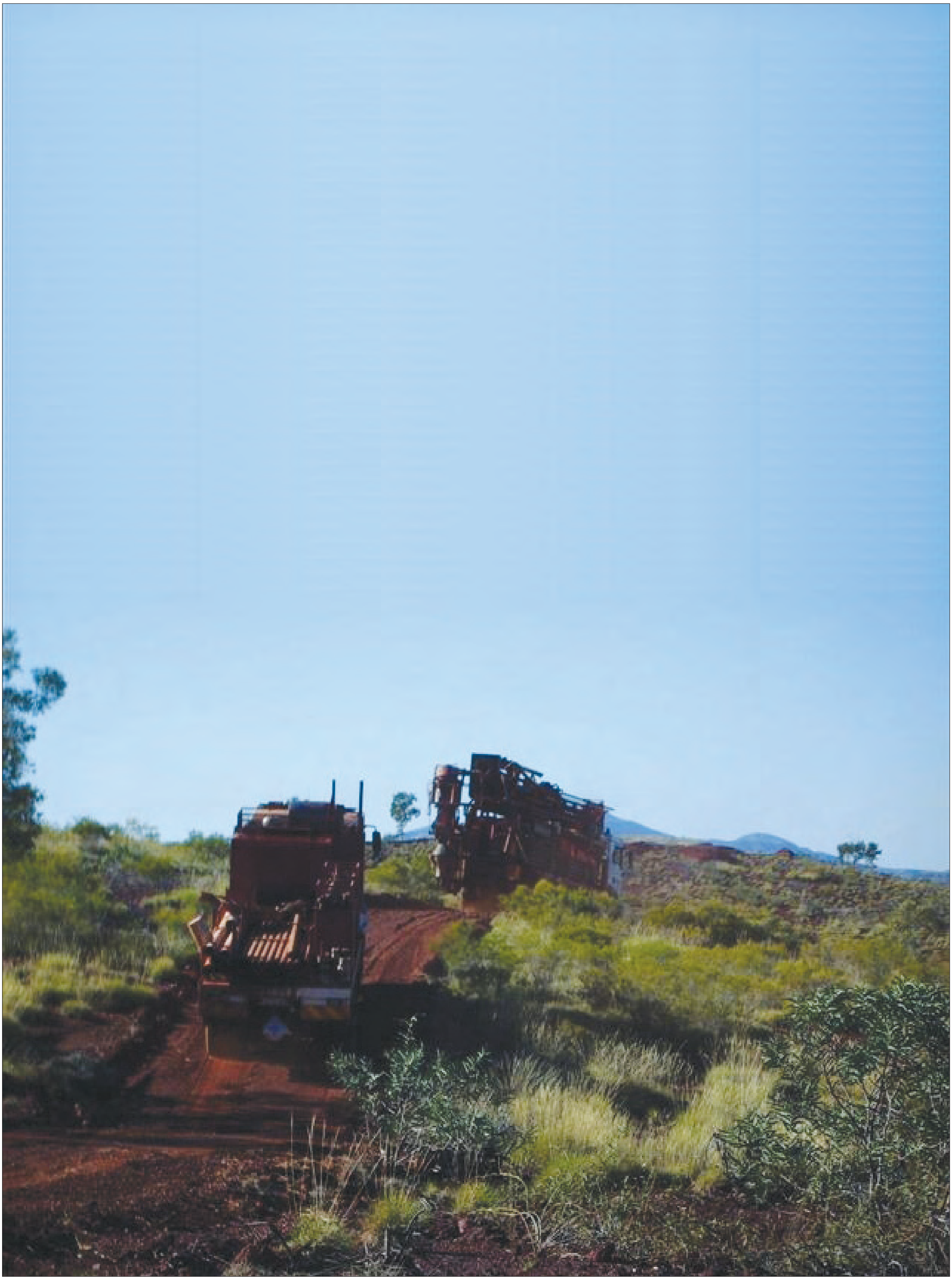
Class	Option holder	Unlisted options	
		Number	%
2	Redcote Pty Ltd	600,000	43
2	Northerly Investments Pty Ltd	300,000	21

9. On-market buy back

At the date of this report the company is not involved in an on-market buy-back.

10. Restricted securities

There are no restricted securities in voluntary escrow at the date of this report.



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