Talisman Mining Limited

ABN: 71 079 536 495

Financial report for the half-year ended
31 December 2005

Financial report for the half-year ended 31 December 2005

Company Directory

DIRECTORS

Ian Macpherson
(Non-Executive Chairman)

Michael Hannington
(Non-Executive Directors)

Steven Elliott
(Managing Director)

COMPANY SECRETARY

Lloyd Flint

PRINCIPAL OFFICE

Suite 12, 5 Hasler Road
Osborne Park WA 6017
Telephone: (08) 9445 8282
Facsimile: (08) 9445 9575

REGISTERED OFFICE

C/- Ord Group Pty Ltd
Level 2, Brecon House
47 Colin Street
West Perth WA 6005

AUDITORS

Stanton Partners
First Floor, 1 Havelock Street
Perth WA 6000

SHARE REGISTRY

Advanced Share Registry Services
PO Box 1156, NEDLANDS WA 6909
Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871

STOCK EXCHANGE LISTING

Australian Stock Exchange
(Home Exchange: Perth, Western Australia
Code: TLM

Directors' report

The directors of Talisman Mining Limited submit herewith the financial report for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company who held office during or since the end of the half-year are:

Name
Ian Macpherson
Michael Hannington – appointed 5 July 2005
Steven Elliott
Anthony Kiernan – resigned 5 July 2005
Stephen Denn – resigned 5 July 2005

Review of operations

CORPORATE

During the six month period July1 to December 31, 2005, Company activities were focussed on raising of the necessary capital to continue exploration and evaluation of the Company's mineral leases in Western Australia. An Initial Public Offer (IPO) was completed raising $2.63M through the issue of 13,160,500 fully paid ordinary shares, culminating with admission of the Company to the official lists of the Australian Stock Exchange on 25 November, 2005.

MINERAL PROJECTS

TRILLBAR GOLD PROJECT (80% Talisman)

Boundary Prospect
A program of Reverse Circulation (RC) drilling was undertaken with 26 drillholes for 1626 metres completed. Drillholes were sited to infill drilling completed by previous explorers in the known resource (314,000t @ 2.2 g/t gold), and to test for strike extensions to the mineralisation to both the east and west.

Composite 4 metre grab samples were collected and submitted for assay although results were not available at the conclusion of the reporting period. Anomalous 4 metre intervals have been re-split and one metre intervals submitted for fire assay.

On receipt of final assay results, Talisman will re-assess the prospects economic potential.

Winja Prospect
Two reverse circulation drillholes for 129 metres were completed in follow up to a Western Mining Corporation (1986 – 1991) drill intercept of 2m @ 2.86g/t gold. A third planned drillhole was not completed owing to failure of the contracted drilling rig.

Composite 4 metre grab samples were collected and submitted for assay although results were not available at the conclusion of the reporting period. Anomalous 4 metre intervals will be re-split and one metre intervals submitted for fire assay.

MAITLAND GOLD PROJECT (80% Talisman) and **MOUNT JAMES GOLD PROJECT** (Talisman earning 60%)

No exploration activities were completed at Maitland or Mount James during the six month period.

WONMUNNA Cu-Zn-Au-Ag / IRON PROJECT (100% Talisman, Royalty Agreement (Iron Ore) with Poondano Exploration Pty Ltd)

Schwanny's Prospect

During the six month period, previously unknown outcropping copper oxide mineralisation was discovered and subsequently designated as Schwanny's prospect.

Mineralisation is expressed in surface outcrop predominantly as malachite (copper carbonate) with a single composite grab sample assaying 20% copper, 0.23g/t gold, 8g/t silver, 0.11g/t platinum, 0.08g/t palladium. The mineralisation has been noted to outcrop discontinuously through cover over 80 metres of strike and is up to 3 metres thick. Potential exists for a considerably longer strike extent beneath transported cover to both the east and west. Mineralisation is associated with a carbonate bed in what appears to be an otherwise uniform sequence of sulphidic black shale.

The Company considers that this mineralisation, together with other similar mineralisations at the Ironstone, Sleepy Hollow and Bull prospects, offers considerable potential for the definition of substantial oxide copper-gold-silver resources.

Iron Ore (Poondano Exploration Pty Ltd Royalty Agreement)

During the six month period Poondano completed a brief reconnaissance drilling program designed to evaluate the pisolitic CID (Channel Iron Deposits) previously discovered by Talisman.

A total of 21 drillholes for 240 metres were completed over an area of approximately 3 kilometres by 300 metres. The best iron intercepts are listed in Table 1 below.

Table 1: Poondano Exploration Pty Ltd Drill Intercepts >50% Fe.

Drillhole	*Intercept (m)*	*Fe%*	*Highest Fe Interval*
TRC 4	4	51.2	2m @ 51.9% Fe
TRC 8	6	54.3	4m @ 56.2% Fe
TRC 9	4	54.7	2m @ 56.0% Fe
TRC 10	12	51.5	8m @52.4% Fe

Whilst the iron results are at the lower end for saleable product, Poondano have expressed encouragement with the results as the drilling has clearly shown the presence of CID, thickening to the east. Over 20 kilometres of strike remains untested by drilling in this direction. Poondano intend to complete additional reconnaissance drilling in this area in the March Quarter, 2006.

Other Projects

No exploration activities were completed during the six month period at the Tom Price, Anticline and Copper Hills projects.

Auditor’s independence declaration

The auditor’s independence declaration is included on page 6 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

Steven Elliott
Director

Dated: 15 March 2006

STANTON PARTNERS

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WESTERN AUSTRALIA

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Facsimile: (08) 9321 1204

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15 March 2006

Board of Directors
Talisman Mining Limited
Level 2, 47 Colin Street
WEST PERTH WA 6005

Dear Directors

RE: TALISMAN MINING LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Talisman Mining Limited.

As Audit Partner for the review of the financial statements of Talisman Mining Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

STANTON PARTNERS

Stanton Partners

John Van Dieren
Partner

STANTON PARTNERS

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WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

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**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF
TALISMAN MINING LIMITED**

Scope

We have reviewed the financial report comprising of the balance sheet, income statement, statement of changes in equity, cash flows statement and accompanying notes to the financial statements and the directors' declaration of Talisman Mining Limited (the Company) for the half-year ended 31 December 2005. The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting" in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the report.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission and Australian Stock Exchange.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Talisman Mining Limited is not in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

STANTON PARTNERS

Stanton Partners

JVanDieren

J P Van Dieren
Partner

West Perth, Western Australia
15 March 2006

Directors' declaration

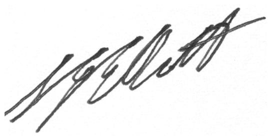
The directors declare that:

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

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Steven Elliott
Director

Dated: 15March 2006

Income statement for the half-year ended 31 December 2005

	Note	Half-year ended 31 Dec 2005 $
Revenue		23,183
Debt forgiveness		132,575
Interest expense		(127)
Employee and contractors expenses		(29,149)
Depreciation expense		(1,577)
Administration expenses		(25,852)
Consultants expenses		(71,604)
Other expenses		(31,622)
(Loss) before income tax expense	2	(4,173)
Income tax expense		-
(Loss) for the period		(4,173)
(Loss) per share:		
Basic (cents per share)		(0.02)
Diluted (cents per share)		(0.02)

Notes to the financial statements are included on pages 14 to 19.

Balance sheet
as at 31 December 2005

	Note	31 December 2005 $	30 June 2005 $
Current assets			
Cash and cash equivalents		2,224,374	4,596
Trade and other receivables		62,266	7,179
Total current assets		2,286,640	11,775
Non-current assets			
Property, plant and equipment		4,501	6,078
Exploration and evaluation expenditure		699,755	193,201
Total non-current assets		704,256	199,279
Total assets		2,990,896	211,054
Current liabilities			
Trade and other payables		174,857	34,169
Loans from directors		11,486	-
Total current liabilities		186,343	34,169
Non current liabilities			
Loans from directors and director related entities		-	132,575
Total non current liabilities		-	132,575
Total liabilities		186,343	166,744
Net assets		2,804,553	44,310
Equity			
Issued capital		3,741,914	977,498
Accumulated losses		(937,361)	(933,188)
Total equity		2,804,553	44,310

Notes to the financial statements are included on pages 14 to 19.

Statement of changes in equity
For the half-year ended 31 December 2005

	Attributable to equity holders		
For the period ended 31 December 2005	**Ordinary Shares $**	**Accumulated Losses $**	**Total Equity $**
At beginning of period	977,498	(933,188)	44,310
Profit/(loss) for the period	-	(4,173)	(4,173)
	977,498	(937,361)	40,137
Issue of shares for convertible notes	49,000	-	49,000
Issue of shares	3,084,600	-	3,084,600
Shares issue expenses	(369,184)	-	(369,184)
At end of period	3,741,914	(937,361)	2,804,553

Notes to the financial statements are included on pages 14 to 19.

Cash flow statement for the half-year ended 31 December 2005

	Note	Half-year ended 31 Dec 2005 $
Cash flows from operating activities		
Payments for exploration and evaluation		(306,554)
Payments to suppliers and employees		(61,140)
Interest and other costs of finance paid		(127)
Interest received		23,183
Net cash provided by/(used in) operating activities		(344,638)
Cash flows from investing activities		
Net cash provided by/(used in) by investing activities		-
Cash flows from financing activities		
Proceeds from issues of equity securities		2,933,600
Proceeds from related party loans		-
Payment for share issue costs		(369,184)
Net cash provided by/(used in) financing activities		2,564,416
Net increase in cash and cash equivalents		2,219,778
Cash and cash equivalents at the beginning of the half-year		4,596
Cash and cash equivalents at the end of the half-year		2,224,374

Notes to the financial statements are included on pages 14 to 19.

Notes to the financial statements for the half-year ended 31 December 2005

1. Summary of accounting policies

Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The entity changed its accounting policies on 1 January 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the entity's financial position, financial performance and cash flows is discussed in note 6.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 6), the entity's date of transition.

Significant accounting policies

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

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Employee benefits

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits', even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(c) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Notes to the financial statements for the half-year ended 31 December 2005 (cont.)

1. Summary of accounting policies (cont)

(c) Property, plant and equipment (cont.)

Depreciation is provided on plant and equipment. Depreciation is calculated on a diminishing value basis and on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following rates are used in the calculation of depreciation:

- Plant and equipment 15% - 45%

(d) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(e) Loans & Receivables

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

(f) Financial instruments issued by the company

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

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

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

Notes to the financial statements for the half-year ended 31 December 2005 (cont.)

1. Summary of accounting policies (cont.)

(h) Impairment of assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Notes to the financial statements for the half-year ended 31 December 2005 (cont.)

1. Summary of accounting policies (cont.)

(i) Income tax (cont.)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(j) Intangible Assets

Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred may be accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
(ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Notwithstanding the fact that a decision not to abandon an area of interest has been made, based on the above, the exploration and evaluation expenditure in relation to an area may still be written off if considered appropriate to do so.

(k) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(l) Provisions

Provisions are recognised when the entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Notes to the financial statements for the half-year ended 31 December 2005 (cont.)

1. Summary of accounting policies (cont.)

(l) Provisions (cont.)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(m) Revenue recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(n) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial 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 Company'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.

2. Subsequent events

No matters or circumstances have arisen since the end of the half year period which 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 periods.

3. Issuances, repurchases and repayments of securities

During the half-year reporting period, the Company issued the following securities:

252,500 ordinary shares as seed capital for $252,500

13,160,500 ordinary shares pursuant to a prospectus for $2,632,100

3 convertible notes for 3,000,000 shares each for $49,000

1,000,000 fully paid ordinary shares as part consideration for the purchase of an interest in tenements at a deemed price of 20 cents per shares.

The 3 convertible notes were converted to 9,000,000 shares on application to list on the Australian Stock Exchange.

4. Segment Reporting

The Company operates predominantly in one geographical area , being Western Australia, and in one business segment, mineral mining and exploration and substantially all of the entity's resources are employed for this purpose.

Notes to the financial statements for the half-year ended 31 December 2005 (cont.)

5. Contingent Liabilities

In the opinion of the directors, there are no contingent liabilities as at 31 December 2005 and none incurred in the interval between the period end and the date of this financial report.

6. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The entity changed its accounting policies on 1 January 2005 to comply with Australian equivalents to International Financial Reporting Standards (‘A-IFRS’). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 ‘First-time Adoption of Australian Equivalents to International Financial Reporting Standards’, with 1 July 2004 as the date of transition.

There has been no impact on equity as at 1 July 2004, 31 December 2004 or 30 June 2005 as a result of the change of accounting policies on implementing AIFRS.

7. Comparatives

Comparative figure for the half year ended 31 December 2004 are not disclosed as the Company was not a disclosing entity in the period to 31 December 2004