

TALISMAN MINING LTD

ABN 71 079 536 495

Financial report for the financial year ended 30 June 2006

Annual financial report for the financial year ended 30 June 2006

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Directors' report

The directors of Talisman Mining Ltd submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

- Ian Macpherson
- Michael Hannington
- Steve Elliott
- Anthony Kiernan
- Stephen Denn

Directors have been in office since the start of the financial year to date, except as follows:

- Michael Hannington – appointed 5 July 2005
- Anthony Keirnan – resigned 5 July 2005
- Stephen Denn – resigned 5 July 2005

Information on Directors

Ian Macpherson B.Comm CA *Non-Executive Chairman*

Mr Macpherson is a graduate from the University of Western Australia with a Bachelor of Commerce in 1977. He commenced his career in commerce in 1978 prior to entering the Chartered Accounting profession. Mr Macpherson was admitted as a partner of the firm that became known as KMG Hungerfords in 1986, having built up a specialist practice in the provision of corporate and financial advice to the mining and mineral exploration industry. In 1987 the firm merged with Arthur Andersen & Co.

In 1990 Mr Macpherson resigned from the partnership of Arthur Andersen & Co to establish Ord Partners. Mr Macpherson has specialised in the area of corporate advice with a particular emphasis on capital structuring, equity and debt raising, Corporate Affairs and Stock Exchange compliance procedures for public companies, both mining and industrial. He has acted in the role of director and company secretary for a number of his clients and has been involved in numerous asset acquisition and disposal engagements involving the preparation of detailed Information Memorandum, pre-acquisition review and Independent Reports. He is currently non-executive Chairman of Visiomed Group Limited and non-executive director of Navigator Resources Limited.

Mr Macpherson is an Associate Member of the Institute of Chartered Accountants in Australia and past member, Executive Council of the Association of Mining Exploration Companies (WA) Inc.

During the past three (3) years Mr Macpherson has held directorships in the following other listed companies:

Company	Appointed	Resigned
Helix Resources Limited	26 August 1985	1 December 2004
Visiomed Group Limited	27 July 1995	Current
Preston Resources Limited	9 March 2004	22 November 2004
Navigator Resources Limited	3 July 2003	Current
Precious Metals Australia Limited	3 March 2004	3 February 2006

Steven J Elliott (BAppSci, MAusIMM) *Managing Director*

Steven has over twenty years experience in mineral exploration throughout Australia. Steven graduated from the West Australian Institute of Technology (Curtin University) with a BSc in Geology in 1980.

Steven commenced his career with Swan Resources Ltd exploring for diamonds and subsequently platinum throughout Australia. This was followed by an interval as a consulting and contract geologist to various mineral explorers. He was a founding Director of Helix Resources NL in 1985 and subsequently Director of Exploration for twelve years, leaving in 1997 to establish Talisman Mining Ltd.

Steven has broad experience in conceptual geology, project generation and exploration for a variety of commodities in a broad spectrum of geological terranes. He was instrumental in the discovery of a new type of platinum mineralisation at Fifield in New South Wales and was responsible for the discovery of gold mineralisation at Glenburgh in the Gascoyne region in a geological environment previously considered to be largely unprospective. Mr Elliott has studied and visited various mineral deposits in Africa and North America.

Steven is a member of the Australian Institute of Mining and Metallurgy.

Steven has not held directorships in listed companies in the last 3 years.

Michael AJ Hannington B.Sc., LLB
Non-Executive Director (appointed 5 July 2005)

Michael is a graduate from Curtin University with a Bachelor of Applied Science in Geophysics. He has 10 years experience as a geophysicist in Australia, Canada and the USA.

Michael has experience exploring for gold and base metal deposits throughout Australia and North America, he has been involved in mining projects from regional exploration to discovery and production.

Michael has recently been admitted as a barrister and solicitor of the Supreme Court of WA after completing a Bachelor of Law in 2002. He is currently employed as a lawyer for a major mining company. As a lawyer, Michael provides a rare combination of technical geological expertise with a commercial focus on developing profitable mines.

Michael is a member of the Australian Society of Exploration Geophysicists, the Australian Mining and Petroleum Law Association and the Australian Corporate Lawyers Association.

Michael has not held directorships in listed companies in the last 3 years.

Company Secretary

Lloyd A Flint B.Acc, CA, MBA, F Fin.
Company Secretary

Lloyd is a qualified Chartered Accountant and has 20 years experience in the provision of financial services and corporate advice. He holds similar secretarial roles in various other listed and unlisted public companies.

Principal activities

The principal activity of Talisman Mining Ltd is exploring for gold and base metals.

Review of operations

PROJECT REVIEW

Tenement Schedule						
PROJECT	COMMODITY	TENEMENT	AREA (Blocks)	TALISMAN EQUITY	GRANTED	EXPIRY
TRILLBAR	Au	E52/1597	8	80% ¹	12/01/04	11/01/09
		E52/1607	6	80% ¹	28/06/04	27/06/09
		E52/1691	61	80% ¹	16/02/06	15/02/11
MAITLAND	Au	E51/1006	34	80% ¹	24/07/06	23/07/11
MOUNT JAMES	Au	E52/1685	15	0% ²	09/01/06	09/01/11
BUSTLER WELL	Au	M52/800	933ha	80% ³	Application 24/02/03	
		E52/1547	3	80% ³	03/02/00	03/02/06
WONMUNNA	Cu-Zn-Au-Ag / Fe	E47/1137	69	100% ⁴	29/08/02	28/08/07
TOM PRICE	Cu-Zn-Au-Ag / Fe	E47/1136	30	100% ⁵	20/02/03	19/02/08
ANTICLINE	Cu-Zn-Au-Ag / Fe	E47/1194	56	100% ⁵	13/12/02	12/12/07
		E47/1195	70	100% ⁵	13/12/02	12/12/07
		E47/1196	70	100% ⁵	13/12/02	12/12/07
COPPER HILLS	Ni-Cu-PGE / U	E45/2377	35	100% ⁶	31/10/02	30/10/07
		E45/2378	35	100% ⁶	31/10/02	30/10/07

1. Joint Venture with Murchison Resources Pty Ltd (Murchison). Murchison free carried to completion of bankable feasibility study.
2. Talisman earning 60% from Giralia Resources NL.
3. Joint Venture with Adelaide Prospecting Pty Ltd (Adelaide). Adelaide free carried to completion of bankable feasibility study.
4. Royalty Agreement with Poondano Exploration Pty Ltd. 25c/tonne iron ore produced payable to Talisman.
5. Royalty Agreement with Poondano Exploration Pty Ltd. 25c/tonne iron ore produced payable to Talisman.
6. Joint Venture with Western Platinum NL (WPN) – WPN earning 70%

GOLD PROJECTS

TRILLBAR GOLD PROJECT (Talisman Mining Ltd – 80%; Murchison Resources Pty Ltd – 20%)

The Trillbar project encompasses a number of gold prospects at various stages of development, some of which have been defined by Talisman during the reporting year. Talisman is aggressively evaluating these prospects whilst continuing exploration for new gold mineralisations in the project area.

The known mineralisations and anomalies defined by Talisman and previous explorers are at various stages of development from an existing resource (Boundary) and abandoned workings (Livingstone), through reverse circulation (RC) drill intercepts (Winja, Stanley) and rotary air blast (RAB) / aircore saprolite geochemical anomalies (Mosleys, Hilltop, VHF,

WW), to gold-in-soil anomalies (Livingstone surrounds).

Boundary Prospect

Completion of two reverse circulation (RC) drilling campaigns, comprising 45 drillholes for 3,437 metres, has resulted in a substantial broadening of the scope of the Boundary prospect.

Prior to Talisman gaining title to the project area, the **Boundary** prospect had an identified resource of **314,000t @ 2.2g/t gold** as identified by previous explorers. RC drilling completed by Talisman has focused on expanding the strike and depth extents of the mineralisation, both objectives having been achieved.

Recalculation of the Boundary gold resource is currently in progress. It is anticipated that this recalculation, to be available by October, 2006, will result in a substantial upgrade of the resource.

Significant drill intercepts (>1g/t) gold from the first two Talisman drilling campaigns are detailed in Table 1.

Table 1: Boundary Prospect: Stages 1 & 2, RC Drill intercepts >1g/t Gold			
Drillhole	From - To	m	g/t Au
TRC2	42 - 45	3	6.96
Including	43 - 44	1	18.47
	49 - 50	1	1.03
TRC4	54 - 55	1	1.23
	56 - 58	2	1.06
TRC6	61 - 63	2	1.84
TRC7	0 - 1	1	1.24
TRC8	0 - 5	5	4.53
Including	0 - 1	1	11.58
	15 - 16	1	1.55
TRC9	9 - 12	3	1.87
	19 - 25	6	3.07
TRC11	16 - 17	1	7.72
	20 - 25	5	2.15
TRC12	11 - 12	1	1.75
	31 - 35	4	7.73
Including	33 - 34	1	24.99
	39 - 40	1	1.59
	44 - 47	3	4.61
TRC14	109 - 112(eoh)	3	2.19
TRC15	27 - 33	6	5.17
Including	29 - 31	2	10.45
TRC17	17 - 20	3	1.36
	25 - 29	4	1.51
TRC18	57 - 58	1	1.38
TRC19	30 - 34	4	1.80
	39 - 41	2	6.61
Including	40 - 41	1	10.45
TRC30	7 - 8	1	2.33
TRC35	100 - 101	1	1.20
TRC37	104 - 139(eoh)	35	1.57
Including	112 - 119	7	4.75
TRC43	117 - 120	3	1.07
	125 - 129(eoh)	4	1.06
TRC44	121 - 123	2	1.8

Winja Prospect

The Winja prospect, previously discovered by WMC during the course of reconnaissance drilling for talc mineralisation, is situated on a major fault parallel to, and 1 kilometre south of Boundary. Unlike Boundary, however, the Winja mineralisation is situated entirely within metasediments of the Padbury Group. The gold mineralisation is associated with quartz veining within low-grade talc mineralisation.

The original WMC drilling, comprising a single RC drill traverse, reported a number of low-grade (<0.5g/t gold) drill intercepts with a best intercept of 12m @ 0.9g/t gold, including 2m @ 2.86g/t gold. Two follow up RC drillholes completed by Talisman in the same drill traverse returned a best intercept of 8m @ 2.25g/t gold.

Initial drill evaluation of the Winja prospect has indicated a robust gold mineralised system with ore-grade and width intercepts. The mineralisation remains open to both the east and west and at depth.

Reconnaissance

A local prospector has reported locating a number of small gold 'slugs' in two areas on the Company's leases, designated Mosley's and Jules.

A total of approximately 22 ozs of gold was reported recovered both from metal detecting and, at Mosley's, dollying of ferruginous rock float.

These virgin discoveries are considered to be very significant with potential for the definition of substantial gold mineralisation.

Reconnaissance RAB / aircore drilling to weathered bedrock (saprolite) has been completed over a strike length of 5600m to the west of Boundary. Results of this drilling are not available at the time of writing.

The remaining gold prospects defined by previous explorers at **Hilltop**, **VHF**, **WW** and **Stanley**, together with the abandoned workings and associated gold-in-soil anomalies at **Livingstone**, remain untested by Talisman. These poorly tested prospects offer good potential for the definition of further gold resources with drill evaluation to commence in the succeeding year.

An aeromagnetic survey completed for Talisman has clearly defined the host structures associated with the known mineralisations and gold anomalies. These structures extend for a combined strike of over 75 kilometres through the project tenements, exclusive of connecting splay faults and smaller structures. Much of this combined strike length is beneath cover and remains untested.

MAITLAND GOLD PROJECT (Talisman Mining Ltd – 80%; Murchison Resources Pty Ltd – 20%)

The Maitland project encompasses all of the Mount Maitland greenstone belt on the northern margin of the Yilgarn craton. Although the project area encompasses two areas of historic gold workings at Maitland North and Maitland South, Talisman's primary targets remain the Mudawerrie BIF and the Jacia prospect.

Mudawerrie BIF

The Mudawerrie BIF (Banded Iron Formation), situated near the eastern margin of the greenstone belt, was identified by Talisman as being prospective for gold mineralisation on gaining title to the project area, with outcrop samples reporting up to 4.04g/t gold.

Although outcrop of the BIF is discontinuous, aeromagnetic data obtained for the Company, coupled with soil geochemistry, indicates that the BIF is continuous beneath shallow cover. Furthermore, the aeromagnetic survey has extended the strike of the BIF a further 6 kilometres to the north under cover, for a total strike of approximately 18 kilometres.

Soil geochemistry has been completed on 200m x 40m centres over a 8000m strike length of the projected Mudawerrie BIF, although results have not yet been received.

Jacia

The Jacia prospect, discovered by previous explorers, is situated on the western flank of the greenstone belt and has been traced in outcrop over a strike length of approximately 1800 metres (Figure 5). The prospect has been reported to contain up to 8.2g/t gold, 290g/t silver, 1.55% copper and 8.99% lead.

The base metal – silver – gold signature of the outcrop samples indicates a possible association with Golden Grove-type volcanogenic massive sulphides.

Talisman has completed soil geochemistry on 200m x 40m centres over a 3000m strike length of the Jacia prospect. Results of this work are not available at the time of writing.

MOUNT JAMES PROJECT (Giralia Resources NL - 100%, Talisman Mining Ltd earning 60%)

The Mount James project, comprising three defined prospects (**West Point, Fishtail, Clever Mary**) over 8 kilometres of strike, remains a significant gold target

for the Company, albeit that no field activities were completed during the reporting period.

Although previous exploration had intersected primarily low-grade mineralisation over considerable strikes and widths, the project remains for the Company, a target for moderate tonnage, high-grade gold mineralisation, similar to that defined at the nearby Glenburgh and Egerton gold deposits.

Work during the year was restricted to collation of all exploration and drill data obtained by previous explorers. This work has both confirmed the exploration model used by Talisman and has provided targets for follow up drill evaluation.

BUSTLER WELL PROJECT (Talisman Mining Ltd – 80%; Adelaide Prospecting Pty Ltd – 20%)

A 80% equity in the Bustler Well project was acquired in January, 2006, with Adelaide Prospecting Pty Ltd free carried at 20% equity through to completion of a bankable feasibility study.

Equity in the Bustler Well project was acquired on the basis that the contained gold mineralisation is possibly a strike extension, or repetition, of the Mount James mineralisation approximately 10 kilometres to the southwest. Previous explorers drill intercepts at Bustler Well have included 1m @ 37.4g/t gold, 2m @ 9.08g/t gold, 3m @ 7.62g/t gold and 3m @ 7.17g/t gold.

Any gold resources defined at Bustler Well would supplement gold resources that may be defined at Mount James.

During the year Talisman completed gridded soil geochemistry over the small, abandoned Bustler Well gold workings and projected strike extensions of the mineralised lode. Results of this survey were not available at the time of writing.

COPPER - ZINC - GOLD – SILVER PROJECTS

WONMUNNA PROJECT (Talisman Mining Ltd – 100%)

The Wonmunna project area, 70 kilometres northwest of Newman on the Great Northern Highway, is the most advanced of the Cu-Zn-Au-Ag projects with previous reconnaissance drilling and costeaning completed by WMC, and stream, soil and rock geochemistry completed by Talisman together with a detailed aeromagnetic / radiometric survey and limited reconnaissance drilling..

A number of oxide copper occurrences, comprising predominantly malachite and cuprite, were defined by WMC by costeaning and/or drilling, and several further occurrences have been located by Talisman through surface prospecting.

Other than the known prospects, stream sediment geochemistry completed by the Company has indicated large areas of strong copper anomalism, some of which are spatially associated with the known prospects but many of which have no association with known mineralisation.

Follow up gridded soil geochemistry at the Bull and Sleepy Hollow prospects has defined strong copper-in-soil anomalies, usually with coincident anomalous zinc, gold and silver. Samples were collected of minus 2mm soils at intervals of 40 metres on 200 metre spaced traverses.

At the **Bull** prospect, the defined copper-in-soil anomaly occurs along strike to the east from shallow oxide copper mineralisation previously located by Western Mining Corporation (WMC) (1969-1975) in costeans and shallow drillholes, and continues to the east for 1700 metres, remaining open in that direction, and over widths from 40 to 120 metres. Copper recorded results to 1186ppm, over a background of <200ppm, coincident with strongly anomalous zinc to 1221ppm, gold to 80ppb and silver to 1.8ppm. It especially significant to note that the original WMC mineralisation at Bull is situated along strike from but external to the soil geochemical anomaly.

At the **Sleepy Hollow** prospect, the defined copper-in-soil anomalies are contiguous with, and define strike extensions of, near surface oxide copper mineralisation previously located by WMC in costeans and shallow drillholes. The soil copper anomalies have been defined intermittently over a total strike in excess of 800 metres, remaining open to both the east and west, with copper reporting to 940ppm with coincident zinc to 3073ppm, gold to 20ppb and silver to 1.5ppm.

The large soil geochemical anomalies delineated at Bull and Sleepy Hollow indicate good potential for the delineation of a substantial, near surface, oxide copper-zinc-gold-silver resource. The proximity to a major transport route, the Newman – Port Hedland Highway passing through Bull and within 1 kilometre north of Sleepy Hollow, bodes well for rapid evaluation and exploitation of any resource that might be proved. Similarly, other copper prospects previously located or indicated by the stream sediment geochemistry offer excellent potential for delineation of a large resource base over and above what may be defined at Bull and Sleepy Hollow.

Talisman has yet to complete drill evaluation of any of the prospects, other than **Schwanny's** where two shallow drillholes were sited to test beneath outcropping malachite mineralisation. Drilling was 'opportunistic', utilizing a drilling rig on-site completing reconnaissance iron ore drilling for Poondano Exploration Pty Ltd (Poondano). This produced a best intercept of 5m @ 0.53% copper and 0.28% zinc from surface.

Iron Ore (Royalty Agreement with Poondano Exploration Pty Ltd)

An initial program of reconnaissance drilling completed by Poondano during the year intersected previously unknown and untested channel iron deposits (CID) in the centre of the project area. The CID were reported to be up to 12 metres thick with assays up to **4m @ 56.2% iron**. This level of concentration is at the lower end of the saleable range for CID-type iron ores.

A second program of reconnaissance drilling by Poondano reported drill intercepts of significant primary iron ore mineralisation associated with the Marra Mamba Iron Formation, beneath the CID. Six drillholes over an area of approximately 1.5 x 0.5 kilometres averaged 58.8% iron over 15.7 metres with a best intercept of **6m @ 62.9% iron**. These results, together with silica, alumina and phosphorus, are comparable with current specifications of Pilbara iron ores. The mineralisation is considered to be similar to the West Angelas and Marandoo iron ore deposits.

TOM PRICE PROJECT (Talisman Mining Ltd – 100%)

The Tom Price project area, located immediately adjacent to the township of Tom Price and associated iron ore mine, is similar in both geology and exploration history to the Wonmunna project area and therefore contains similar potential for both sulphide and oxide base and precious metal ores.

WMC (1969 – 1975) completed 201 rotary drillholes averaging <5 metres depth and defined widespread copper, zinc, gold and silver anomalism to 1.35%, 0.68%, 3.2g/t and 420g/t respectively. Other than gold, which was not assayed by WMC at Wonmunna, these results are comparable to those from the sister project.

Exploration completed by Talisman during the year comprised completion of a stream sediment geochemistry survey. This work has delineated areas of strong copper anomalism with attendant gold and zinc anomalism. This anomalism, associated with underlying Jeerinah Formation sulphidic black shales, is predominantly associated with the northern limb of the Turner Syncline and the eastern fold closure of this structure. This anomalism is also coincident with the area previously drilled by WMC from which numerous highly anomalous copper, gold and silver intercepts were reported.

Iron Ore (Royalty Agreement with Fortescue Metals Group Ltd)

Fortescue Metals Group (FMG) has completed collation of pre-existing iron ore exploration data. No field work of significance has been completed.

ANTICLINE PROJECT (Talisman Mining Ltd – 100%)

The Anticline project comprises a large area of sulphidic black shales of the Jeerinah Formation and has potential for both sulphide and oxide base and precious metals mineralisation, similar to that indicated at Wonmunna and Tom Price.

No work was completed on the project during the year other than GIS capture of historic WMC soil

geochemistry and GSWA stream sediment geochemistry data.

Iron Ore (Royalty Agreement with Fortescue Metals Group Ltd)

Fortescue Metals Group (FMG) has completed collation of pre-existing iron ore exploration data. No field work of significance has been completed.

NICKEL - COPPER – PGE / URANIUM PROJECT

COPPER HILLS PROJECT (Talisman Mining Ltd – 100%; Western Platinum NL earning 70%)

Situated in the highly prospective Rudall Complex in the Great Sandy Desert, this project is operated by Western Platinum NL (WPN), a wholly owned subsidiary of Western Areas NL, with WPN sole funding exploration to earn a 70% equity in the tenements.

Although primarily targeting nickel – copper – PGE mineralisation associated with an interpreted layered mafic intrusive complex, WPN has reported potential for uranium mineralisation through identification of radiometric anomalies derived from re-interpretation of a pre-existing radiometric survey. No significant follow up field work has been completed.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

Subsequent events

On 19 September 2006 the Company announced to the ASX it had entered into an agreement with RM Capital Pty Ltd to manage the placement of 7,000,000 ordinary fully paid shares to be issued at 16 cents. In addition the Company announced a pro rata issue of 12.26m 2010 options to existing shareholders at 1 cent each. The placement and option issue will raise a total of \$1.24m before costs.

The fee payable includes the issue of up to 4.2m 2010 options on successful completion of the placement.

There has not been any matter or circumstance other than that stated above or referred to in the financial statements or notes thereto, that has arisen since 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 operations are subject to significant environmental regulations under both Commonwealth and State legislation. The Board believes that the Company has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the Company.

Dividends

No amounts were paid or declared by way of dividend by the Company. The Directors do not recommend payment of a dividend in respect of the financial year ended 30 June 2006.

Share options

Share options granted to directors and executives

During and since the end of the financial year no share options were granted to the directors of the company.

Share options on issue at year end or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Talisman Mining Ltd	3,900,000	Ordinary	25 cents	30 June 2008

The holders of such 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.

No shares or interests were issued during the financial year as a result of exercise of any options.

Indemnification of officers and auditors

The Company has entered into Deeds of Insurance, Indemnity and Access with each of the Directors under which the Company agrees to indemnify the Directors against certain liabilities incurred by the Directors while acting as Director of the Company, to insure the Directors against certain risks to which the Directors are exposed to as a Director of the Company.

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, eleven board meetings were held. No nomination and remuneration committee meetings and no audit committee meetings were held during the period from admission to the Australian Stock Exchange on 23 November 2005 to date of this report.

Directors	Board of directors		Nomination & remuneration committee		Audit committee	
	Held	Attended	Held	Attended	Held	Attended
Ian Macpherson	11	11	Nil		Nil	
Michael Hannington	10	9	Nil		Nil	
Steve Elliott	11	11	Nil		Nil	
Anthony Kiernan	1	-	N/a		N/a	
Stephen Denn	1	-	N/a		N/a	

The directors also passed 6 circular resolutions.

Directors' shareholdings

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

Directors	Shares	Options
Ian Macpherson	1,800,000	-
Michael Hannington	300,000	-
Steve Elliott	5,000,002	3,900,000

Remuneration report

Remuneration policy for directors and executives

The Board is responsible for establishing remuneration packages applicable to the Board members of the Company. The policy adopted by the Board is to ensure that remuneration properly reflects an individual's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

Directors' remuneration packages are also assessed in the light of the condition of markets within which the Company operates, the Company's financial condition and the individual's contribution to the achievement of corporate objectives.

Director and executive details

The directors of Talisman Mining Ltd during the year were:

- Ian Macpherson
- Michael Hannington
- Steve Elliott
- Anthony Kiernan
- Stephen Denn

There were no specified executives of Talisman Mining Ltd during the year.

Elements of director and executive remuneration

Remuneration packages contain the following key elements:

- a) Primary benefits (being salary, fees, bonus and non monetary benefits)
- b) Post-employment benefits (being superannuation)
- c) Equity (being share options granted)
- d) Other benefits

The following table discloses the remuneration of the directors of the company:

	Primary			Post-employment			Equity	Insurance	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Other benefits	
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$
Ian Macpherson	19,055	-	-	-	-	-	-	5,935	24,990
Michael Hannington	15,034	-	-	1,353	-	-	-	5,935	22,322
Steven Elliott	66,201	-	-	5,958	-	-	-	9,637	81,796
Total	100,290	-	-	7,311	-	-	-	21,507	129,108

Options issued to directors and executives

No options were granted, exercised or lapsed during the year.

Proceedings on behalf of the company

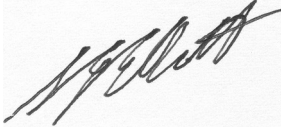
No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party. The Company was not party to any proceedings during the year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 12. The auditor has not provided any non-audit services to the Company during the year other than an associated company charging \$4,535 for the preparation of an Independent Accountants report. The directors of Talisman consider that no conflict of interest arose from providing this service.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Steve Elliott
Director

Perth, 21 September 2006

21 September 2006

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

Dear Sirs

RE: TALISMAN MINING LTD

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 Ltd.

As Audit Director for the audit of the financial statements of Talisman Mining Ltd for the year ended 30 June 2006, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF TALISMAN MINING LTD

SCOPE

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity and statement of cash-flows, accompanying notes to the financial statements, and the directors' declaration for Talisman Mining Ltd (the Company) for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report 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 financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

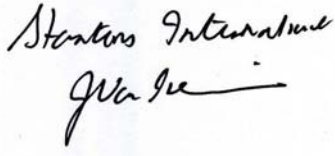
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the financial report of Talisman Mining Ltd is in accordance with:

- a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL (Authorised Audit Company)

A handwritten signature in black ink, appearing to read 'J P Van Dieren', is written over a light blue rectangular background.

J P Van Dieren
Director

Perth, Western Australia
21 September 2006

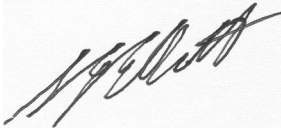
Directors' declaration

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 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 Company; and
- (c) 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.

On behalf of the Directors



Steven Elliott
Director

Perth, 21 September 2006

Income statement for the financial year ended 30 June 2006

	Note	2006 \$	2005 \$
Revenue	2	193,608	2,115
Employee benefits expense		(71,117)	-
Finance costs		(662)	-
Depreciation and amortisation expense		(7,051)	(4,725)
Consulting expense		(167,664)	(17,374)
Occupancy expense		(20,234)	-
Exploration expenditure written off		-	(202,546)
Operating expense		-	(38,919)
Other expenses		(109,382)	(16,984)
Loss before income tax expense/benefit	2	(182,502)	(278,433)
Income tax expense/benefit relating to ordinary activities	3	-	-
Loss attributable to members		(182,502)	(278,433)
 Loss per share:			
Basic (cents per share)	14	(0.67)	(2.55)

Notes to the financial statements are included on pages 20 to 36.

Balance sheet as at 30 June 2006

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		\$	\$
Current assets			
Cash and cash equivalents	20	1,361,687	4,596
Trade and other receivables	6	51,573	7,179
Total current assets		<u>1,413,260</u>	<u>11,775</u>
Non-current assets			
Property, plant and equipment	7	52,147	6,078
Exploration and evaluation expenditure	8	1,355,351	193,201
Total non-current assets		<u>1,407,498</u>	<u>199,279</u>
Total assets		<u>2,820,758</u>	<u>211,054</u>
Current liabilities			
Trade and other payables	9	186,328	34,169
Provisions	10	9,488	-
Total current liabilities		<u>195,816</u>	<u>34,169</u>
Non-current liabilities			
Borrowings	11	-	132,575
Total non-current liabilities		<u>195,816</u>	<u>132,575</u>
Total liabilities		<u>195,816</u>	<u>166,744</u>
Net assets		<u>2,624,942</u>	<u>44,310</u>
Equity			
Issued capital	12	3,740,632	977,498
Accumulated losses	13	(1,115,690)	(933,188)
Total equity		<u>2,624,942</u>	<u>44,310</u>

Notes to the financial statements are included on pages 20 to 36.

Statement of Changes in Equity for the financial year ended 30 June 2006

	Attributable to equity holders		
	Ordinary Shares \$	Accumulated Losses \$	Total Equity \$
For the year ended 30 June 2006			
At beginning of year	977,498	(933,188)	44,310
Loss for the year	-	(182,502)	(182,502)
Issue of shares	3,133,600	-	3,133,600
Shares issue expenses	(370,466)	-	(370,466)
At end of year	3,740,632	(1,115,690)	2,624,942

	Attributable to equity holders		
	Ordinary Shares \$	Accumulated Losses \$	Total Equity \$
For the year ended 30 June 2005			
At beginning of year	957,498	(654,755)	302,743
Loss for the year	-	(278,433)	(278,433)
Issue of shares	20,000	-	20,000
Shares issue expenses	-	-	-
At end of year	977,498	(933,188)	44,310

Notes to the financial statements are included on pages 20 to 36.

Cash flow statement for the financial year ended 30 June 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Receipts from customers		-	1,818
Interest received		-	297
Payments to suppliers and employees		(251,145)	(34,219)
Payments for exploration and expenditure		-	(98,088)
Interest and other costs of finance paid		(662)	-
Net cash provided by/(used in) operating activities	20(b)	(251,806)	(130,192)
Cash flows from investing activities			
Interest received		61,033	-
Payment for property, plant and equipment		(53,120)	-
Payment for exploration and evaluation		(962,150)	-
Net cash (used in)/provided by investing activities		(954,237)	-
Cash flows from financing activities			
Proceeds from convertible notes		49,000	-
Proceeds from issues of equity securities		2,884,600	-
Payment for share issue costs		(370,466)	-
Proceeds of borrowings-Director and Director related entities		-	114,334
Net cash provided by/(used in) financing activities		2,563,134	114,334
Net increase/(decrease) in cash and cash equivalents		1,357,091	(15,858)
Cash and cash equivalents at the beginning of the financial year		4,596	20,454
Cash and cash equivalents at the end of the financial year	20(a)	1,361,687	4,596

Notes to the financial statements are included on pages 20 to 36.

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 19 September 2006.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, 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 various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The entity changed its accounting policies on 1 July 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 company's financial position, financial performance and cash flows is discussed in note 22.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 22), the entity's date of transition, except for the accounting policies in respect of financial instruments.

The following significant accounting policies have been adopted in the preparation and presentation of the 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.

1. Summary of accounting policies (cont'd)

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service 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.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

(c) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

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

(d) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

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.

(e) 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.

1. Summary of accounting policies (cont'd)

(f) 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.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

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.

(g) 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

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.

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.

1. Summary of accounting policies (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

Talisman Mining Australian resident for Australian taxation law purposes and has no subsidiaries.

(h) 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.

(i) Joint ventures

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the financial statements and the cost method in the company financial statements.

(j) Operating cycle

The operating cycle of the entity coincides with the annual reporting cycle.

(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) Presentation currency

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

1. Summary of accounting policies (cont'd)

- (m) Plant and equipment
Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on plant and equipment. Depreciation is calculated 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 estimated useful lives are used in the calculation of depreciation:

Class of fixed asset	Depreciation rate (%)
• Office furniture & equipment	7.5 - 40

- (n) 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.

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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

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.

- (o) Revenue recognition
Dividend and interest revenue
Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

- (p) 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 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.

- (q) Comparative information – financial instruments
The entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS.

The accounting policies applied to accounting for financial instruments in the current financial year are detailed above. The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

- (a) Accounts payable
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.

1. Summary of accounting policies (cont'd)

(b) Financial instruments issued by the company
Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

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.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(c) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

Effect of changing the accounting policies for financial instruments

There was no effect as a result of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005.

2. Loss from operations

(a) Revenue

	2006 \$	2005 \$
Forgiveness of debt	132,575	-
Good faith payment	-	1,818
Interest revenue	61,033	297

(b) Loss before income tax

Profit/(loss) before income tax has been arrived at after crediting/ (charging) the following gains and losses from continuing operations:

Finance costs:

Other interest expense	622	-
Total interest expense	622	-
Depreciation of non-current assets	7,051	4,725

Employee benefit expense:

Post employment benefits:

Defined contribution plans	18,056	-
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3. Income taxes

(a) Income tax recognised in profit or loss

Tax expense/(income) comprises:

	2006 \$	2005 \$
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-

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:

Loss from operations	(182,502)	(278,433)
Income tax expense calculated at 30%	(54,751)	(83,530)
Non-deductible expenses	15,200	11,678
Non-assessable items	(39,773)	-
Unused tax losses and temporary differences not recognised as deferred tax assets	79,324	71,852
Income tax attributable to operating loss	-	-

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.

Unrecognised deferred tax balances

The following deferred tax assets and (liabilities) have not been brought to account:

Tax losses – revenue	690,446	223,454
Tax losses – capital	-	-
Exploration, evaluation and development	(406,605)	(57,960)
Fundraising expenses	65,272	35,460
Payables and provisions	9,055	-
	358,168	200,954

The potential future income tax benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company in realising the benefits.

Tax consolidation

Relevance of tax consolidation to the Company

The company is Australian resident entity for tax purposes and has no subsidiaries.

4. Key management personnel remuneration

The specified directors of Talisman Mining Ltd during the year were:

- Ian Macpherson
- Michael Hannington
- Steven Elliott
- Anthony Kiernan
- Stephen Dunn

There were no specified executives of Talisman Mining Ltd during the year.

(a) Key management personnel remuneration

The Board policy for determining emoluments is based on the principle of remunerating Directors and senior executives on their ability to add value to the Company (taking into account the Company's strategic plan and operations) whilst also considering market emolument packages for similar positions within the industry and in consultation with external consultants. The Board appreciates the interrelationship between this policy and Company performance. It acknowledges that it is in the best interests of shareholders to provide challenging but achievable incentives to reward senior executives for reaching the Company's stated goals. The Board will discuss these issues internally and with candidates prior to engaging additional directors or senior executives in the future.

Specified directors' remuneration

	Short term			Post-employment			Equity* Options	Other benefits (insurance)	Total
	Salary & fees	Bonus	Non- monetary	Super- annua- tion	Pre- scribed benefits	Other			
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$
Ian Macpherson	19,055	-	-	-	-	-	-	5,935	24,990
Michael Hannington	15,034	-	-	1,353	-	-	-	5,935	22,322
Steve Elliott	66,201	-	-	5,958	-	-	-	9,637	81,796
Anthony Kiernan	-	-	-	-	-	-	-	-	-
Stephen Denn	-	-	-	-	-	-	-	-	-
Total	100,290	-	-	7,311	-	-	-	21,507	129,108

Refer to note 18 for related party transactions.

	Short term			Post-employment			Equity* Options	Other benefits	Total
	Salary & fees	Bonus	Non- monetary	Super- annua- tion	Pre- scribed benefits	Other			
2005	\$	\$	\$	\$	\$	\$	\$	\$	\$
Ian Macpherson (i)	-	-	-	-	-	-	-	-	-
Steven Elliott	-	-	-	-	-	-	-	-	-
Anthony Kiernan	-	-	-	-	-	-	-	-	-
Stephen Denn	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

(i) Refer to note 18 for related party transactions

There were no specified executives during the year.

(b) Share-based payment scheme

The following reconciles the outstanding share options granted at the beginning and end of the financial year:

	2006		2005	
	Number of options	Exercise price \$	Number of options	Exercise price \$
Balance at beginning of the financial year	3,900,000	0.25	3,900,000	0.25
Balance at end of the financial year	3,900,000	0.25	3,900,000	0.25
Exercisable at end of the financial year	3,900,000	0.25	3,900,000	0.25

The share options outstanding at the end of the financial year had an exercise price of 25 cents, and a weighted average remaining contractual life of 2 years.

5. Remuneration of auditors

Audit or review of the financial report
Other services (Independent Accountants report)

2006 \$	2005 \$
11,249	6,516
4,353	-
<u>15,784</u>	<u>6,516</u>

The auditor of Talisman Mining Ltd is Stantons International.

6. Trade and other receivables

Current

Other debtors
Goods and services tax (GST) recoverable

Company	
2006 \$	2005 \$
10,659	7,179
40,914	-
<u>51,573</u>	<u>7,179</u>

7. Property, plant and equipment

Gross carrying amount

Balance at 1 July 2004

Balance at 1 July 2005

Additions

Balance at 30 June 2006

Accumulated depreciation/ amortisation and impairment

Balance at 1 July 2004

Depreciation expense

Balance at 1 July 2005

Depreciation expense

Balance at 30 June 2006

Net book value

As at 30 June 2005

As at 30 June 2006

Company	
Office furniture and equipment at cost \$	Total \$
19,376	19,376
19,376	19,376
53,120	53,120
<u>72,496</u>	<u>72,496</u>
8,573	8,573
4,725	4,725
13,298	13,298
7,051	7,051
<u>20,349</u>	<u>20,349</u>
6,078	6,078
<u>52,147</u>	<u>52,147</u>

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

Office furniture and equipment

7,051	4,725
<u>7,051</u>	<u>4,725</u>

8. Other intangible assets

	Exploration, Evaluation and Development \$	Total \$
Exploration, evaluation & development		
Balance at 1 July 2004	336,578	336,578
Additions	59,169	59,169
Acquisitions	-	-
Exploration expenditure written off	(202,546)	(202,546)
Balance at 1 July 2005	193,201	193,201
Additions	777,150	777,150
Acquisitions	385,000	385,000
Balance at 30 June 2006	1,355,351	1,355,351
Net book value		
As at 30 June 2005	193,201	193,201
As at 30 June 2006	1,355,351	1,355,351

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependant on the successful development and commercial exploitation or sales of the respective areas.

9. Current trade and other payables

	2006 \$	2005 \$
Trade payables (i)	114,162	34,169
Other payables	43,251	-
Accruals	28,915	-
	186,328	34,169

- (i) The average credit period on purchases of goods is 30 days. No interest is charged on the trade payables for at least the first 30 days from the date of the invoice. Thereafter, interest may be charged on the outstanding balance. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe (refer note 21).

10. Current provisions

	2006 \$	2005 \$
Employee benefits	9,488	-
	9,488	-

11. Borrowings

	2006 \$	2005 \$
Loans from director and director related entities	-	132,575
	-	132,575

12. Issued capital

36,798,006 fully paid ordinary shares
(2005: 11,112,506)

2006 \$	2005 \$
3,740,632	977,498
<u>3,740,632</u>	<u>977,498</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2006		2005	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	11,112,506	977,498	10,912,506	957,498
Debt conversion – 30 June 2005	-	-	200,000	20,000
Seed capital raising	2,525,000	252,500	-	-
Initial public offering	13,160,500	2,632,100	-	-
Convertible note converted	9,000,000	49,000	-	-
Acquisition of project (i)	1,000,000	200,000	-	-
Share issue costs	-	(370,466)	-	-
Balance at end of financial year	<u>36,798,006</u>	<u>3,740,632</u>	<u>11,112,506</u>	<u>977,498</u>

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

- (i) The fair value was determined by the price of Talisman shares on listing on the Australian Stock Exchange.

Share options

As at 30 June 2006, options over 3,900,000 ordinary shares, in aggregate, are on issue with an expiry date of 30 June 2008 and an exercise price of 25 cents each.

Share options carry no rights to dividends and no voting rights.

13. Accumulated losses

Balance at beginning of financial year
Net loss attributable to members of the company
Balance at end of financial year

2006 \$	2005 \$
(933,188)	(654,755)
(182,502)	(278,433)
<u>(1,115,690)</u>	<u>(933,188)</u>

14. Loss per share

Basic loss per share:

From continuing operations
Total basic loss per share

2006 Cents per share	2005 Cents per share
(0.67)	(2.55)
<u>(0.67)</u>	<u>(2.55)</u>

Basic earnings per share

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

14. Loss per share (cont'd)

	2006 \$	2005 \$
Loss (a)	(182,502)	(278,433)
	2005 No.	2004 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	27,063,395	10,913,054

(a) Earnings used in the calculation of total basic loss per share and basic earnings per share from continuing operations reconciles to net loss in the income statement as follows:

	2006 \$	2005 \$
Net loss	(182,502)	(278,433)
Other	-	-
Earnings used in the calculation of basic EPS	(182,502)	(278,433)

15. Commitments for expenditure

(a) Capital expenditure commitments

There are no capital expenditure commitments.

(b) Lease commitments

Non-cancellable operating lease commitments are as follows:

Non-cancellable operating lease payments

Not longer than 1 year	16,027	-
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	16,027	-

(c) Other expenditure commitments

Exploration expenditure

Not longer than 1 year	482,500	538,672
Longer than 1 year and not longer than 5 years	543,900	1,908,144
Longer than 5 years	-	-
	1,026,400	2,446,816

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum 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:

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.

16. Contingent liabilities and contingent assets

In the opinion of the directors, there are no contingent liabilities as at 30 June 2006 and none were incurred in the interval between the year end and the date of this financial report.

17. Segment information

The Company operates predominantly in one geographical segment, being Western Australia, and in one industry, mineral mining and exploration.

18. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Talisman Mining Ltd has no subsidiary companies.

Equity interests in associates and joint ventures

Talisman Mining Ltd has no interests in associates and joint ventures.

(b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 4 to the financial statements.

(c) Loan disclosures

2006	Balance at beginning \$	Interest charged \$	Interest not charged \$	Write-off \$	Balance at end \$	Number in group
Loans from specified and related entities.	132,575	-	-	132,575	-	3
Total	132,575	-	-	132,575	-	3

2005	Balance at beginning \$	Interest charged \$	Interest not charged \$	Write-off \$	Balance at end \$	Number in group
Loans from specified and related entities.	18,241	-	-	-	132,575	3
Total	18,241	-	-	-	132,575	3

(d) Key management personnel equity holdings

Fully paid ordinary shares of Talisman Mining Ltd

	Balance@ 1/7/05	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/6/06
	No.	No.	No.	No.	No.
Directors					
Ian Macpherson	400,000	-	-	1,400,000	1,800,000
Michael Hannington	-	-	-	300,000	300,000
Steven Elliott	600,003	-	-	(1,000,000)	5,000,003
Anthony Kiernan (i)	400,000	-	-	(400,000)	-
Stephen Denn (i)	1,000,000	-	-	(1,000,000)	-
	7,800,003	-	-	(700,000)	7,100,003

(i) Resigned 5 July 2005.

18. Related party disclosures (cont'd)

Executive share options of Talisman Mining Ltd

	Bal @ 1/7/05	Granted as remuneration	Exer- cised	Net other change	Bal @ 30/06/06	Bal vested @ 30/06/06	Vest ed but not exer- ci- sabl e	Vested and exer- cible	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	
Ian Macpherson	200,000	-	-	(200,000)	-	-	-	-	-
Michael Hannington	-	-	-	-	-	-	-	-	-
Steven Elliott	3,000,000	-	-	900,000	3,900,000	3,900,000	-	3,900,000	-
Anthony Kiernan	200,000	-	-	(200,000)	-	-	-	-	-
Stephen Denn	500,000	-	-	(500,000)	-	-	-	-	-
	<u>3,900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,900,000</u>	<u>3,900,000</u>	<u>-</u>	<u>3,900,000</u>	<u>-</u>

There were no share options issued during the financial year.

There were no options exercised by directors during the financial year.

(e) Other transactions with specified directors

The loss from operations includes the following items of revenue and expense that resulted from transactions other than remuneration, loans or equity holdings, with specified directors or their personally-related entities:

Debt forgiveness	132,575	-
Total recognised as revenue	<u>132,575</u>	<u>-</u>

Interest charged on loans from specified directors was \$nil (2005: \$nil)

Total liabilities arising from transactions other than remuneration with specified directors or their personally-related entities as at reporting date:

Current	17,552	27,242
	<u>17,552</u>	<u>27,242</u>

During the financial year, the Company recognised revenue of \$132,575 in relation to loans from Steven Elliott and his personally-related entities which were forgiven. Liabilities of \$11,052 (2005: \$27,242) were owed to Ord Group entities which are related entities of Ian Macpherson.

(f) Other transactions with specified executives

The loss from operations includes the following items of revenue and expense that resulted from transactions other than remuneration, loans or equity holdings, with specified executives or their personally-related entities:

Company secretarial and accounting expenses payable to Ord Group entities.	90,856	71,706
Total recognised as expenses	<u>90,856</u>	<u>71,706</u>

19. Subsequent events

On 19 September 2006 the Company announced to the ASX it had entered into an agreement with RM Capital Pty Ltd to manage the placement of 7,000,000 ordinary fully paid shares to be issued at 16 cents. In addition the Company announced a pro rata issue of 12.26m 2010 options to existing shareholders at 1 cent each. The placement and option issue will raise a total of \$1.24m before costs.

The fee payable includes the issue of up to 4.2m 2010 options on successful completion of the placement.

There has not been any matter or circumstance other than that stated above or referred to in the financial statements or notes thereto, that has arisen since 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.

20. Notes to the cash flow statement

	2006 \$	2005 \$
(a) Reconciliation of cash and cash equivalents		
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	1,361,687	4,596
	1,361,687	4,596
(b) Reconciliation of loss for the year to net cash flows from operating activities		
Loss for the year	(182,502)	(278,433)
Debt forgiven	(132,575)	
Exploration and evaluation expenditure written off	-	202,546
Depreciation and amortisation of non-current assets	7,051	4,725
Equity settled share-based payment	-	20,000
Exploration expenditure capitalised	-	(59,169)
Interest received	(61,033)	-
(Increase)/decrease in assets:		
Current receivables	(44,394)	(513)
Increase/(decrease) in liabilities:		
Current payables	152,159	(19,348)
Current provisions	9,488	
Net cash used in operating activities	(251,806)	(130,192)

21. Financial instruments

(a) Financial risk management objectives

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company's activities expose it primarily to the financial risks of changes in interest rates. The Company does not enter into derivative financial instruments to manage its exposure to interest rate risk.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

21. Financial instruments (cont'd)

(c) Foreign currency risk management

The Company has no transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations do not arise.

(d) Interest rate risk management

The Company is exposed to interest rate risk as it invests cash in both fixed and floating interest rate products. The risk is managed by maintaining an appropriate mix between fixed and floating rate products.

Maturity profile of financial instruments

The following table details the Company's exposure to interest rate risk as at 30 June 2006:

2006	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
Financial assets:							
Cash and cash equivalents	5.0	1,360,171	-	-	-	1,516	1,361,687
Trade and other receivables		-	-	-	-	51,573	51,573
		1,360,171	-	-	-	53,089	1,413,260
Financial liabilities:							
Trade and other payables		-	-	-	-	186,328	186,328
		-	-	-	-	186,328	186,328

The following table details the Company's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective interest rate %	Variable interest rate \$	Maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
Financial assets:							
Cash and cash equivalents	2.2%	4,596	-	-	-	-	4,596
Trade and other receivables		-	-	-	-	7,179	7,179
		4,596	-	-	-	7,179	11,775
Financial liabilities:							
Trade and other payables		-	-	-	-	(34,169)	(34,169)
Other loans		-	-	-	-	(132,575)	(132,575)
		-	-	-	-	(166,744)	(166,744)

(d) 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 has no sales and trade accounts comprise only sundry debtors.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(e) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

Transaction costs are included in the determination of net fair value.

21. Financial instruments (cont'd)

(f) Liquidity risk management

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.

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

The Company 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, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note 1(q)).

The transition from superseded policies to A-IFRS has not impacted the company's financial position, financial performance and cash flows as at 1 July 2004, 30 June 2005 and 30 June 2006.