

Talisman Mining Limited

ABN: 71 079 536 495

Financial report for the half-year ended
31 December 2006

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Corporate Directory

DIRECTORS

Ian Macpherson
(Non-Executive Chairman)

Michael Hannington
(Non-Executive Director)

Steven Elliott
(Managing Director)

COMPANY SECRETARY

Darren Crawte

PRINCIPAL OFFICE

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

Unit 12, 5 Hasler Road
OSBORNE PARK WA 6017

AUDITORS

Stantons International
First Floor, 1 Havelock Street
West Perth WA 6005

SHARE REGISTRY

Advanced Share Registry Services
PO Box 1156, NEDLANDS WA 6009
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 2006. 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
Steven Elliott

Review of operations

CORPORATE

During the six month period 1 July 2006 to 31 December 2006, Company activities were focussed on raising of the necessary capital to continue exploration and evaluation of the Company's mineral leases in Western Australia. A placement and entitlements offer was completed raising \$1.29m through the issue of 7,000,000 fully paid ordinary shares and 17,632,668 quoted options. 1,000,000 shares were issued in part consideration of the North Trillbar project and 2,750,000 unlisted options were issued to Directors.

MINERAL PROJECTS

TRILLBAR GOLD PROJECT (80% Talisman)

Gold

During the reporting period Talisman extended its landholding in the area through full acquisition of E52/1675, adjoining the Company's existing tenements to the north.

Exploration activities completed during the reporting period were focused on defining the extent of the Boundary gold mineralisation with the result that the contained resource was upgraded 125% from 314,000t @ 2.2g/t gold (22,000 ozs) to an inferred resource, JORC compliant, of 989,020t @ 1.57g/t gold (50,000ozs). The mineralisation remains open at depth below 120 metres.

In addition to the Boundary prospect, follow up reverse circulation drilling was completed at the Winja prospect returning drill intercepts to 29m @ 5.2g/t gold (including 9m @ 13.96g/t gold). Further limited follow up drilling returned intercepts to 13m @ 3.71g/t gold (including 3m @ 7.69g/t gold). This high-grade mineralisation remains open in all directions.

Reconnaissance rotary air blast / aircore drilling has defined over 20 new gold-in-soil anomalies warranting follow up drill evaluation.

Collectively, work completed by Talisman during the six months has substantially enhanced the prospectivity of the area with the definition of the Winja prospect and a number of new gold anomalies warranting follow up drill evaluation. This work is ongoing.

Uranium

Research had indicated that carnotite (a uranium ore mineral) had previously (1973) been noted to occur in calcrete within the leases encompassing the Mount Seabrook talc mine, these leases being excised from Talisman's surrounding leases. Subsequent re-examination of airborne radiometric data showed strong uranium-channel radiometric anomalies within Talisman's leases and coincident with areas of calcrete over a total combined area in excess of 15 square kilometres. Mapping and rock and soil geochemistry is being completed to determine the potential of the Trillbar project for commercial uranium mineralisation.

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

Gold

The Company has completed gridded soil geochemistry over greater than 60% of the greenstone belt, the untested areas being obscured beneath transported cover.

The soil geochemistry was effective in confirming the gold-anomalous nature of the Mudawerrie BIF (Banded Iron Formation) previously shown by rock sampling to contain up to 4g/t gold. Strong gold-in-soil anomalies up to 1700 metres strike extent were delineated over the BIF. A brief program of follow up reverse circulation drilling has been completed with assay result expected shortly.

The soil geochemistry also defined a strong gold-in-soil anomaly coincident with the abandoned Maitland South gold workings. This anomaly, of some 600 metres strike extent, has similarly been tested by a brief program of reverse circulation drilling with results expected shortly.

A number of additional gold-in-soil anomalies unassociated with either the Mudawerrie BIF or abandoned gold workings were also defined. Evaluation of these anomalies is ongoing.

The nature of further work on the project will be dependent on results of the recently completed drill evaluation of the Mudawerrie BIF and Maitland South, although it is envisaged that substantial drilling will be completed going forward.

MOUNT JAMES PROJECT (Talisman earning 60%)

Gold

Gridded soil geochemistry has been completed over the West Point – Fishtail – Clever Mary line of mineralisation located by previous explorers. Results of this survey are expected shortly with follow up drilling to commence at the earliest opportunity.

BUSTLER WELL PROJECT (80% Talisman)

Gold

Gridded soil geochemistry has defined a strong gold-in-soil anomaly of some 700 metres strike extent and up to 300m wide. This soil anomaly is coincident with small abandoned gold workings where limited drilling completed by previous explorers recorded drill intercepts to 1m @ 37.4g/t gold.

Follow up drill evaluation is planned for completion at the earliest opportunity.

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

Copper – Zinc – Gold – Silver

During the six month period Talisman completed stream geochemistry over the majority of the project area with follow up gridded soil geochemistry completed over a large area of stream sediment anomalism in the central-north of the project area. This soil geochemistry defined a copper-zinc-gold-silver – anomalous stratigraphic horizon within Neoarchaeon metasediments over approximately 10 kilometres of strike, remaining open along strike. These anomalous metasediments are in the upper part of the Jeerinah Formation and comprise sulphidic, tuffaceous black shale with interbedded dolomite.

Several pronounced copper – zinc – gold – silver anomalies were defined within the anomalous horizon at Areas A,B and C, Bull, Sleepy Hollow, Brendans and Main Road. These strong anomalies are usually coincident with fold structures and may represent zones of commercially significant base and precious metal sulphides.

Three reverse circulation drill traverses at Bull and one at Sleepy Hollow intersected widespread, low-grade (<0.2%) secondary copper mineralisation in the weathered zone. A single drillhole at Bull intersected 13m @ 0.34% copper (including 1m @ 1.14% copper) in fresh sulphidic black shale. This drill intercept has added considerable support to the Company's exploration model for volcanogenic – associated base and precious metals sulphide mineralisation in this underexplored terrane.

Further follow up drilling at Bull, and the remaining soil anomalies, is planned for completion at the earliest opportunity.

TOM PRICE PROJECT (100% Talisman, Iron Ore Royalty Agreement with Fortescue Metals Group Ltd)

Copper – Zinc – Gold – Silver

Stream sediment geochemistry has been completed over the entirety of the project area with results indicating strong copper anomalism in Jeerinah Formation shales, at a similar stratigraphic level to the Wonmunna mineralised horizon, on the northern limb of the Turner Syncline.

Soil geochemistry to follow up the anomalous stream geochemistry is planned for completion at the earliest opportunity.

ANTICLINE PROJECT (100% Talisman, Iron Ore Royalty Agreement with Fortescue Metals Group Ltd)

Copper – Zinc – Gold – Silver

No work was completed on the project area during the reporting period.

COPPER HILLS PROJECT (100% Talisman, Western Platinum NL earning 70%)

Base and Precious Metals, Uranium

Western Areas NL reported no work of significance completed on the project area during the reporting period.

Other Projects

No detailed 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 7 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: 13 March 2007

Stantons International

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13 March 2007

Board of Directors
Talisman Mining Limited
Suite 12
5 Hasler Road
OSBORNE PARK WA 6017

Dear Sirs

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 Director for the review of the financial statements of Talisman Mining Limited for the year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF TALISMAN MINING LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Talisman Mining Limited which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Talisman Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to

obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

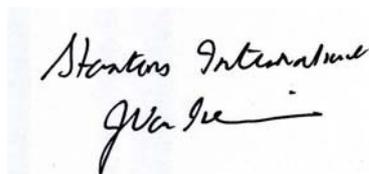
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Talisman Mining Limited on 13 March 2007.

Conclusion

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 the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL
(An authorised audit company)



J P Van Dieren
Director

West Perth, Western Australia
13 March 2007

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that Talisman Mining Limited 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 for the half year ended 31 December 2006.

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: 13 March 2007

Condensed income statement for the half-year ended 31 December 2006

	Note	Half-year ended 31 Dec 2006 \$	Half-year ended 31 Dec 2005 \$
Revenue		25,605	23,183
Debt forgiveness		-	132,575
Interest expense		(66)	(127)
Employee and contractors expenses		(378,151)	(29,149)
Depreciation expense		(7,501)	(1,577)
Administration expenses		(66,648)	(25,852)
Consultants expenses		(44,696)	(71,604)
Occupancy expenses		(24,762)	-
Other expenses		-	(31,622)
(Loss) from continuing operations before income tax expense	2	(496,219)	(4,173)
Income tax expense		-	-
(Loss) from continuing operations for the period		<u>(496,219)</u>	<u>(4,173)</u>
(Loss) per share:			
Basic (cents per share)		(1.29)	(0.02)

Diluted earnings per share is not disclosed as the company incurred a loss and the options are not deemed to be dilutive.

Notes to the financial statements are included on pages 15 to 17.

Condensed balance sheet as at 31 December 2006

	31 December 2006	30 June 2006
Note	\$	\$
Current assets		
Cash and cash equivalents	1,231,258	1,361,687
Trade and other receivables	64,025	51,573
Total current assets	1,295,283	1,413,260
Non-current assets		
Property, plant and equipment	48,408	52,147
Exploration and evaluation expenditure	2,610,683	1,355,351
Total non-current assets	2,659,091	1,407,498
Total assets	3,954,374	2,820,758
Current liabilities		
Trade and other payables	184,813	186,328
Loans from directors	27,929	9,488
Total current liabilities	212,742	195,816
Total liabilities	212,742	195,816
Net assets	3,741,632	2,624,942
Equity		
Issued capital	3 4,874,406	3,740,632
Option reserve	4 479,135	-
Accumulated losses	(1,611,909)	(1,115,690)
Total equity	3,741,632	2,624,942

Notes to the financial statements are included on pages 15 to 17.

Condensed statement of changes in equity for the half-year ended 31 December 2006

For the period ended 31 December 2006	Attributable to equity holders			Total Equity \$
	Ordinary Shares \$	Option Reserve \$	Accumulated Losses \$	
At beginning of period	3,740,632	-	(1,115,690)	2,624,942
Profit/(loss) for the period	-	-	(496,219)	(496,219)
	3,740,632	-	(1,611,909)	2,128,723
Issue of options	-	479,135	-	479,135
Issue of shares	1,280,000	-	-	1,280,000
Shares issue expenses	(146,226)	-	-	(146,226)
At end of period	4,874,406	479,135	(1,611,909)	3,741,632

For the period ended 31 December 2005	Attributable to equity holders			Total Equity \$
	Ordinary Shares \$	Option Reserve \$	Accumulated Losses \$	
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 15 to 17.

Condensed cash flow statement for the half-year ended 31 December 2006

Note	Half-year ended 31 Dec 2006 \$	Half-year ended 31 Dec 2005 \$
Cash flows from operating activities		
Payments for exploration and evaluation	(1,095,264)	(306,554)
Payments to suppliers and employees	(207,042)	(61,140)
Interest and other costs of finance paid	(66)	(127)
Interest received	25,605	23,183
Net cash provided by/(used in) operating activities	<u>(1,276,767)</u>	<u>(344,638)</u>
Cash flows from investing activities		
Payment for property plant & equipment	(3,762)	-
Net cash provided by/(used in) by investing activities	<u>(3,762)</u>	<u>-</u>
Cash flows from financing activities		
Proceeds from issues of equity securities	1,254,326	2,933,600
Payment for share issue costs	(104,226)	(369,184)
Net cash provided by/(used in) financing activities	<u>1,150,100</u>	<u>2,564,416</u>
Net (decrease)/increase in cash and cash equivalents	(130,429)	2,219,778
Cash and cash equivalents at the beginning of the half-year	<u>1,361,687</u>	<u>4,596</u>
Cash and cash equivalents at the end of the half-year	<u>1,231,258</u>	<u>2,224,374</u>

Notes to the financial statements are included on pages 15 to 17.

Notes to the financial statements for the half-year ended 31 December 2006

1. Summary of accounting policies

Statement of compliance

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.

It is also recommended that the half-year financial report be considered together with any public announcements made by Talisman Mining Limited during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except where stated. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2006 annual financial report for the financial year ended 30 June 2006.

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

Fully paid ordinary shares:

	31 December 2006		31 December 2005	
	No.	\$	No.	\$
Balance at beginning of period	36,798,006	3,740,632	11,112,506	977,498
Seed capital	-	-	2,525,000	252,500
Initial Public Offering	-	-	13,160,500	2,632,100
Convertible note converted	-	-	9,000,000	49,000
Acquisitions of project	1,000,000	160,000	1,000,000	200,000
Placement	7,000,000	1,120,000	-	-
Share issue costs	-	(146,226)	-	(369,184)
Balance at end of period	44,798,006	4,874,406	36,798,006	3,741,914

Notes to the financial statements for the half-year ended 31 December 2006 (cont.)

4. Option Reserves

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.

	31 December 2006		31 December 2005	
	No.	\$	No.	\$
Balance at beginning of period	3,900,000	-	3,900,000	-
Entitlements offer (listed options)	13,432,668	134,326	-	-
Placement fee (listed options)	4,200,000	42,000	-	-
Directors remuneration	2,750,000	302,809	-	-
Balance at end of period	<u>24,282,668</u>	<u>479,135</u>	<u>3,900,000</u>	<u>-</u>

5. 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.

6. Contingent Liabilities

In the opinion of the directors, there are no contingent liabilities as at 31 December 2006 and none incurred in the interval between the period end and the date of this financial report.

7. Related parties

Arrangements with related parties continue to be in place. For these details, please refer to the 30 June 2006 annual financial report.

Key management personnel continue to receive compensation in the form of short term employee benefits, post employment benefits and share based payments.

8. Commitments for expenditure

(a) Capital expenditure commitments

There are no capital expenditure commitments.

Notes to the financial statements for the half-year ended 31 December 2006 (cont.)

8. Commitments for expenditure (cont'd)

(b) **Lease commitments**

Non-cancellable operating lease commitments are as follows:

	Company 31 December	
	2006	2005
	\$	\$
Non-cancellable operating lease payments		
Not longer than 1 year	30,353	-
Longer than 1 year and not longer than 5 years	2,551	-
Longer than 5 years	-	-

(c) **Other expenditure commitments**

Exploration expenditure

Non-cancellable operating lease payments		
Not longer than 1 year	525,300	431,500
Longer than 1 year and not longer than 5 years	435,000	387,300
Longer than 5 years	44,167	-

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.