



**TALISMAN MINING LTD**

PO Box 1262  
Subiaco WA 6904  
Tel: +61 8 9380 4230 / Fax: +61 8 9382 8200  
[www.talismanmining.com.au](http://www.talismanmining.com.au)

31 October 2007

The Manager  
Company Announcements Office  
Australian Stock Exchange

By Electronic Lodgement

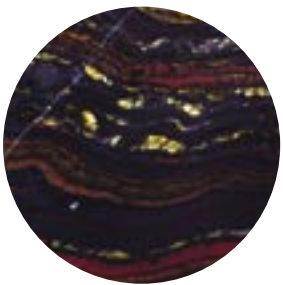
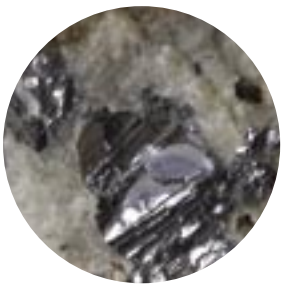
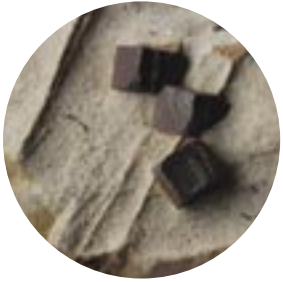
Dear Sir

**ANNUAL REPORT**

Please find attached the Annual Report for the Company for the financial year ended 30 June 2007. An electronic copy of the Annual Report is located on the Company's website at [www.talismanmining.com.au](http://www.talismanmining.com.au).

Yours faithfully,  
**Talisman Mining Limited**

**Steve Elliott**  
Managing Director



# TALISMAN MINING LTD

ABN 71 079 536 495

**ANNUAL REPORT 2007**

## CORPORATE DIRECTORY

### DIRECTORS

Ian Macpherson (Non-Executive Chairman)  
Steven Elliott (Managing Director)  
Michael (Mick) Bunyard (Non-Executive Director)

### COMPANY SECRETARY

Darren Crawte

### REGISTERED OFFICE

Level 2, 47 Colin Street  
West Perth WA 6005

### PRINCIPAL OFFICE

Ground Level  
6 Centro Avenue  
Subiaco WA 6008  
Telephone +61 8 9380 4230  
Facsimile +61 8 9382 8200  
Website [www.talismanmining.com.au](http://www.talismanmining.com.au)

### SOLICITORS

Steinepreis Paganin  
Level 4, Next Building  
16 Milligan St  
PERTH WA 6000

### AUDITORS

Stantons International  
Level 1  
1 Havelock Street  
WEST PERTH WA 6005

### SHARE REGISTRY

Advanced Share Registry Services  
110 Stirling Highway, Nedlands WA 6009  
PO Box 1156  
Nedlands WA 6909

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**TALISMAN MINING LTD**

## LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

Your Company has undergone significant changes in the 2006 – 2007 year, its second year of operations as an Australian Securities Exchange listed company. The most notable change has been the Company's strategic commodity shift from gold and base metals to iron ore, a change that has seen the Company's market capitalization increase over 400% to, as I write this letter on 22 September, 2007, a capitalization of approximately \$51M.

The Wonmunna iron ore project in the Pilbara region, Western Australia, is shaping as a major company asset and potential 'Company - maker', with early indications being that this strategically located ground offers excellent potential for the definition and exploitation of significant tonnages of direct-shipping iron ore products. Drill evaluation of this potential has only recently commenced, and it is expected that exploration and resource drilling will continue through and beyond the next year of operations.

Having made the strategic decision to focus on iron ore as a prime commodity, your company will be utilizing all of its resources to add value to the Wonmunna project, and to acquire further iron ore assets if and as they become available.

Your Company also retains significant gold and base metal assets and, whilst iron ore will remain the focus for ongoing activities, it is intended that these assets will be explored and developed in tandem with the iron ore. Some of these assets may be divested if and as appropriate.

During the year your Board of Directors recognized that several of the Company's project areas had significant uranium potential. It was subsequently agreed, subject to shareholder approval, to form a new company, Protal Metals Group Ltd, in joint venture with Proto Resources and Investments Ltd (ASX code - PRW), to acquire the uranium assets of both companies. It is intended that Protal will complete an initial public offering to raise up to \$7,000,000, and attendant listing on the Australian Securities Exchange, in the first half of 2008. Talisman will retain approximately 20% equity in Protal. Your Board of Directors believes this strategy to be the preferred option for realizing value of the uranium assets, whilst remaining focused on the core business of iron ore exploration and development.

Your Board of Directors has also seen changes with the resignation of Mike Hannington and the appointment of Mick Bunyard, a process engineer with over 36 years experience in the mining industry around the World. Mick's experience and insights are proving to be of significant benefit to the Company.

Your Company remains dedicated to producing shareholder value and I look forward, with you, to the exciting years ahead.

Yours sincerely,



Steven Elliott  
Managing Director



## HIGHLIGHTS

### WONMUNNA IRON / COPPER-GOLD-SILVER-ZINC PROJECT

- Potential for significant economic iron ore mineralisation recognized. Talisman to commence evaluation in succeeding year of operations.
- Drilling evaluation of strong copper-zinc-gold-silver soil anomalies commences.

### TOM PRICE COPPER-GOLD-SILVER-ZINC PROJECT

- Soil geochemistry defines drill-ready copper-zinc-gold-silver anomalies at Aislinn's, Box Canyon, North Limb and Kermit.

### TRILLBAR GOLD PROJECT

- Resource recalculation at Boundary increases resource 125% to 989,020t @ 1.57g/t (49,909ozs gold).
- RC drilling at Winja prospect confirms significant, open-ended gold mineralisation with drill intercepts to 29m @ 5.2g/t gold.
- Numerous new 'Boundary-like' gold anomalies identified by aircore drilling.

### MAITLAND GOLD PROJECT

- Aeromagnetic survey increases potential strike length of gold - anomalous Mudawerrie BIF 50%, from 12 to 18 kilometres.
- First pass drill evaluation of Maitland South returns intercepts to 4m @ 3.82 g/t gold.

### MOUNT JAMES GOLD PROJECT

- Definition of strong gold in soil anomalies provides immediate drill target.

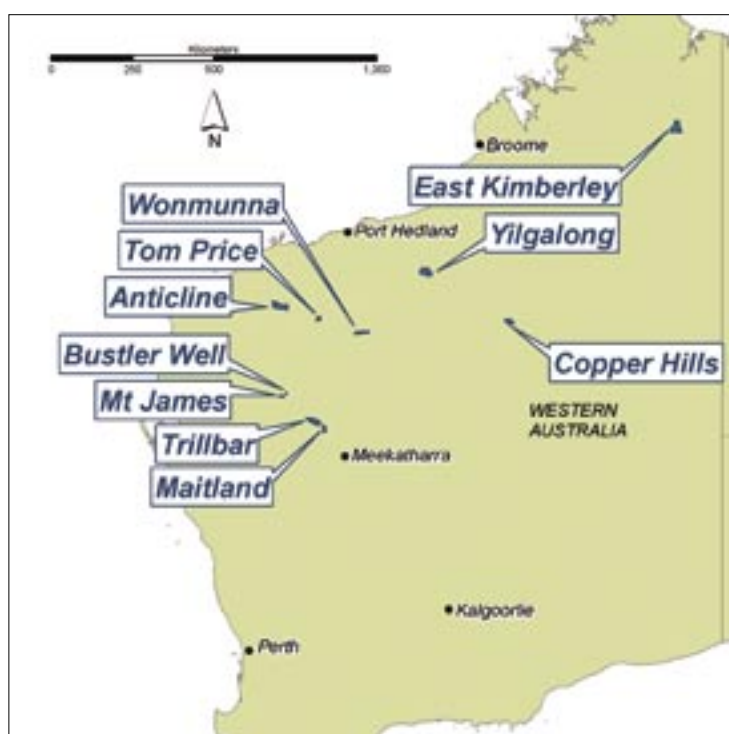
### BUSTLER WELL GOLD PROJECT

- Definition of strong gold in soil anomaly provides immediate drill target.

### URANIUM JOINT VENTURE

- Divestment of uranium assets, and all of the Copper Hills project, to new entity Protal Metals Group Ltd, of which, following an IPO and listing on the Australian Securities Exchange, Talisman will retain approximately 20% of the listed shares.

## REVIEW OF OPERATIONS



Talisman Mining Ltd – Project Areas

## Tenement Schedule

Project	Commodity	Tenement	Area (Blocks)	Talisman Equity	Granted	Expiry
WONMUNNA	Fe / Cu-Zn-Au-Ag	E47/1137	69	100%	29/08/02	28/08/07
TOM PRICE	Fe / Cu-Zn-Au-Ag	E47/1136	30	100% <sup>4</sup>	20/02/03	19/02/08
ANTICLINE	Fe / Cu-Zn-Au-Ag	E47/1194	56	100% <sup>4</sup>	13/12/02	12/12/07
		E47/1195	70	100% <sup>4</sup>	13/12/02	12/12/07
		E47/1196	70	100% <sup>4</sup>	13/12/02	12/12/07
TRILLBAR	Au	E52/1597	8	80% <sup>1</sup>	12/01/04	11/01/09
		E52/1607	6	80% <sup>1</sup>	28/06/04	27/06/09
		E52/1675		100% <sup>1</sup>		
		E52/1691	61	80% <sup>1</sup>	16/02/06	15/02/11
		P52/1037	20.0ha	100%	20/04/04	19/04/08
MAITLAND	Au	E51/1006	34	80% <sup>1</sup>	24/07/06	23/07/11
MOUNT JAMES	Au	E52/1685	15	0% <sup>2</sup>	09/01/06	09/01/11
BUSTLER WELL	Au	M52/800	933ha	80% <sup>3</sup>	Application 24/02/03	
		E52/1547	3	80% <sup>3</sup>	03/02/00	03/02/06
COPPER HILLS	Ni-Cu-PGE / U	E45/2377	35	100%	31/10/02	30/10/07
		E45/2378	35	100%	31/10/02	30/10/07
YILGALONG	Cu-Pb-Zn-Au	E45/3108	70	100%	Application 25/06/07	
		E45/3109	70	100%	Application 25/06/07	
EAST KIMBERLEY	Ni-Cu-PGE	E80/3969	64	100%	Application 15/06/07	
		E80/3970	70	100%	Application 15/06/07	
		E80/3971	52	100%	Application 15/06/07	

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 Fortescue Metals Group Ltd. 10c/tonne iron ore produced payable to Talisman.

## REVIEW OF OPERATIONS (cont...)

### JEERINAH POLYMETALLIC PROJECTS

Talisman has 100% equity in three project areas; Wonmunna, Tom Price, Anticline, which collectively comprise the Jeerinah Polymetallic project in the Hamersley Basin, Western Australia.

All of the Jeerinah project areas have recognized potential for significant iron ore mineralisation. The Wonmunna project area has both CID (Channel Iron Deposit) and Marra Mamba – hosted iron mineralisation, the size and absolute grades of which are yet to be ascertained. Talisman has embarked on a major program of evaluation to determine the economic viability of iron ores at Wonmunna. The remaining two Jeerinah projects, Tom Price and Anticline, are the subject of a royalty agreement (iron ore) with Fortescue Metals Group Ltd.

Initiated as a conceptual model for base and precious metal mineralisation in sediment-hosted massive sulphides, activities completed during the first year have both confirmed and enhanced the potential of the model.

Reconnaissance shallow drilling previously completed by WMC returned significant, oxide, ore-grade drill intercepts within the existing Talisman project tenements and in adjacent areas underlain by the target Jeerinah Formation sulphidic black shales. Peak WMC drill intercepts, all within the oxide zone within 30 metres of the surface, included 10.7m @ 3.4% copper (Wonmunna) and narrower intercepts to 3.2g/t gold (Tom Price), 1240g/t silver (east of Anticline), and 1% zinc (Wonmunna).

Whilst the potential for near surface oxide copper – (zinc-gold-silver) ores remains substantial, the Company has shifted exploration focus to deeper, high-grade sulphide ores.

### WONMUNNA PROJECT

(TALISMAN MINING LTD – 100%)

#### Iron Ore

Previously the subject of a royalty agreement with private company Poondano Exploration Pty Ltd, Poondano has subsequently withdrawn, and the iron ore rights have reverted 100% to Talisman. Although a number of expressions of interest for the iron ore rights have been received, the Company has decided to pursue this exciting potential in its own right.

Limited reconnaissance drilling completed by Poondano had indicated exciting potential for both CID and Marra Mamba iron ores. This drilling, combined with mapping and interpretation of aeromagnetic data, has indicated substantial potential for the definition of significant iron ore resources in an area with adjoining iron ore mines with attendant rail infrastructure (Figure 1).

Poondano reported drill intercepts to **4m @ 56.2% iron** and **22m @ 60.8% iron** in CID and Marra Mamba respectively. Significant drill intercepts from the Poondano drilling are listed in Table 1 below.

Initial reconnaissance RC drilling of both CID and Marra Mamba targets commenced in the September, 2007 Quarter, with results expected shortly thereafter.

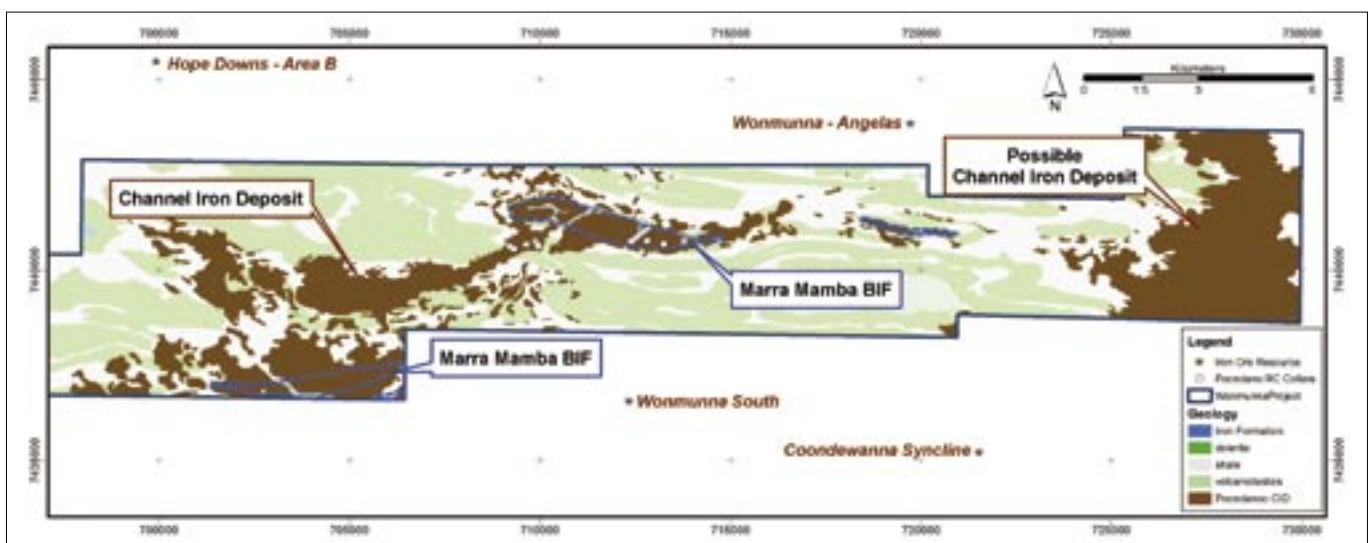


Figure 1: Wonmunna Iron Ore Prospects

Table 1: Poondano Exploration Pty Ltd – Significant Iron Ore Drill Intercepts, 2006 – 2007

Hole	East MGA	North MGA	From (m)	To (m)	Intercept (m)	Fe (%)	P (%)	Al <sub>2</sub> O <sub>3</sub> (%)	SiO <sub>2</sub> (%)	S (%)	Mn (%)	LOI (%)
<i>CID Significant Intercepts</i>												
TRC004	709930	7440685	0	4	4	51.15	0.033	7.40	4.35	0.027	0.040	0.25
TRC005	709959	7440629	0	4	4	51.55	0.032	6.75	6.75	0.090	0.025	11.75
TRC008	709645	7440670 (including	2 2	8 5	6 4	54.33 <b>56.15</b>	0.028 <b>0.028</b>	5.30 <b>4.10</b>	4.90 <b>4.10</b>	0.042 <b>0.042</b>	0.091 <b>0.105</b>	10.90 <b>10.70</b>
TRC009	709220	7440620 (including	0 0	4 2	4 2	54.65 <b>56.00</b>	0.025 <b>0.024</b>	4.60 <b>3.40</b>	5.55 <b>5.40</b>	0.029 <b>0.036</b>	0.006 <b>0.002</b>	10.75 <b>9.90</b>
TRC010	709325	7440550	2	12	10	51.90	0.034	6.14	6.12	0.032	0.049	12.66
<i>Marra Mamba Significant Intercepts</i>												
TRC024	712767	7441033 (including	12 20	24 24	12 4	59.10 <b>61.31</b>	0.066 <b>0.088</b>	2.70 <b>1.75</b>	6.45 <b>3.87</b>	0.016 <b>0.010</b>	0.005 <b>0.005</b>	7.83 <b>6.37</b>
TRC026	712620	7440930 (including	12 20	30 24	18 4	58.60 <b>61.21</b>	0.084 <b>0.078</b>	2.68 <b>1.69</b>	4.83 <b>3.36</b>	0.026 <b>0.021</b>	0.023 <b>0.020</b>	7.85 <b>6.94</b>
TRC028	712468	7440803 (including	12 14	20 18	8 4	59.98 <b>61.25</b>	0.054 <b>0.054</b>	2.17 <b>1.39</b>	3.44 <b>2.49</b>	0.014 <b>0.012</b>	0.005 <b>0.005</b>	8.05 <b>8.06</b>
TRC030	712820	7440756 (including	12 20	30 22	18 2	58.40 <b>62.85</b>	0.067 <b>0.066</b>	3.13 <b>2.21</b>	5.45 <b>4.31</b>	0.026 <b>0.025</b>	0.021 <b>0.020</b>	6.94 <b>6.40</b>
TRC031	712254	7440679 (including	18 20	32 22	14 2	57.08 <b>61.09</b>	0.058 <b>0.093</b>	3.40 <b>1.86</b>	6.35 <b>3.24</b>	0.024 <b>0.025</b>	0.019 <b>0.030</b>	7.93 <b>6.87</b>
TRC032	712793	7440712 (including	14 16	36 34	22 18	60.81 <b>61.27</b>	0.106 <b>0.107</b>	2.09 <b>2.03</b>	3.12 <b>3.02</b>	0.009 <b>0.008</b>	0.009 <b>0.010</b>	7.14 <b>6.36</b>

### Copper – Zinc – Gold – Silver

The Wonmunna project area, 70 kilometres northwest of Newman on the Great Northern Highway, is the most advanced of the Jeerinah 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.

Extensive soil geochemistry at 200m x 40m centres has defined a copper-zinc-gold-silver anomalous horizon in the Jeerinah Formation over approximately 40km of strike around the margins of the Parmelia Syncline. Within this horizon, soil geochemistry has identified a series of strong copper-zinc-gold-silver anomalies possibly indicative of underlying, primary massive sulphide mineralisation (Figure 2).

Initial, limited RC drill evaluation of two of these anomalies, Bull and Sleepy Hollow, was undertaken during the reporting period with completion of 17 drillholes for a total of 1044m. The most significant intercept from this drilling was **16m @ 0.34% copper (including 1m @ 1.14% copper)** from fresh sulphidic black shale at Tavros (the eastern extension of the Bull anomaly). Whilst narrow and of low-grade, this intercept is considered to be very significant as it is indicative of primary mineralizing processes in the Jeerinah Formation. Significant drill intercepts are summarized in Table 2 overleaf.

*Reverse Circulation Drilling for Massive Sulphides – Wonmunna Project.*



REVIEW OF OPERATIONS (cont...)

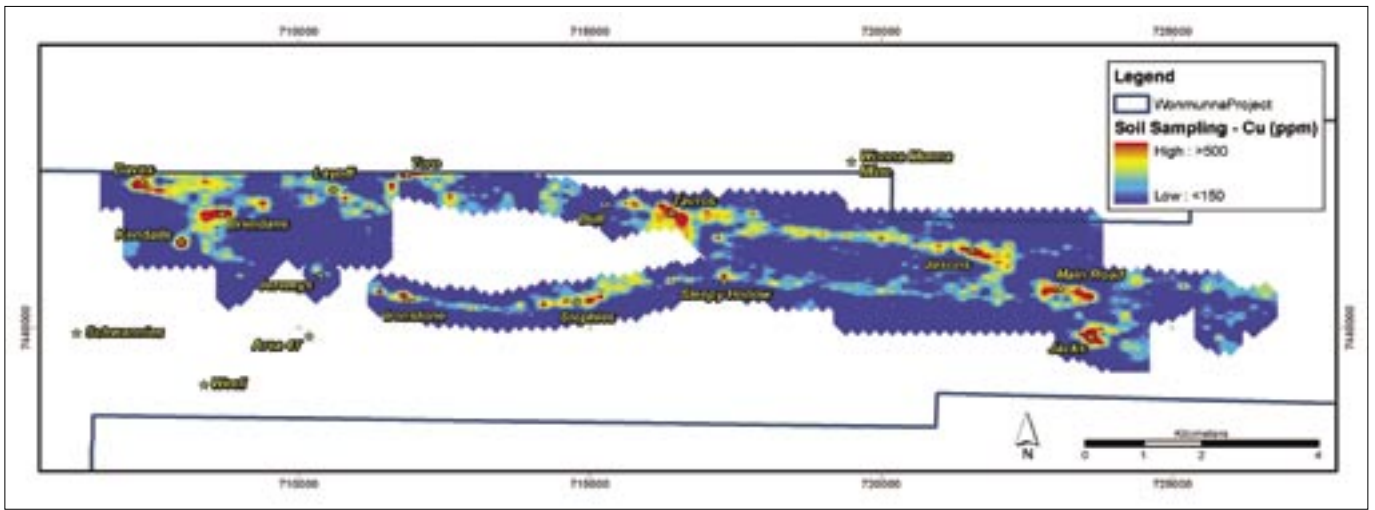


Figure 2: Wonmunna Soil Sampling – Copper

Table 2: Bull and Sleepy Hollow Prospects – Significant RC Drill Intercepts, 2006 -2007

HOLE	EAST MGA	NORTH MGA	FROM (m)	TO (m)	INTERCEPT (m)	GRADE Cu (%)	
<i>Bull/Tavros Prospects</i>							
WNC005	715600	7442200	4	8	4	0.16	o
WNC006	715600	7442160	0	2	2	0.15	o
WNC010	716200	7442160	6	15	9	0.25	o
		<i>(including</i>	<i>13</i>	<i>14</i>	<i>1</i>	<b>0.90</b>	o
WNC011	716200	7442120	58	71	13	0.34	f
		<i>(including</i>	<i>59</i>	<i>60</i>	<i>1</i>	<b>1.14</b>	f
		<i>(including</i>	<i>60</i>	<i>63</i>	<i>3</i>	<b>0.58</b>	f
WNC012	716600	7441880	0	4	4	0.20	o
		<i>(including</i>	<i>2</i>	<i>3</i>	<i>1</i>	<b>0.24</b>	o
WNC013	716600	7441920	16	20	4	0.02	c
			24	27	3	0.43	o
		<i>(including</i>	<i>24</i>	<i>26</i>	<i>2</i>	<b>0.55</b>	o
WNC014	716600	7441960	12	15	3	0.17	o
<i>Sleepy Hollow Prospect</i>							
WNC016	717400	7440920	12	16	4	0.14	c
WNC019	717400	7440820	12	20	8	0.19	c

Note: o = oxide zone f = fresh rock c = composite sample

RC drill evaluation of the Brendans, Kendalls, Daves, and Main Road anomalies has commenced with results expected in the first half of the 2007 – 2008 year.

**WONMUNNA: 2007 – 2008 Objectives**

- RC drill evaluation of CID and Marra Mamba iron ore targets to Inferred Resource status.
- First pass RC drill evaluation of Brendans, Daves, Jasons, Main Road and Jacks soil geochemical anomalies,

**TOM PRICE PROJECT**

(TALISMAN MINING LTD – 100%)

**Iron Ore**

Royalty Agreement with Fortescue Metals Group Ltd. Royalty Agreement renegotiated from 10¢/tonne to 30¢/tonne, capped at \$8M (including Anticline).

Fortescue Metals Group Ltd reported no work of significance completed during the year:

**Copper – Zinc – Gold - Silver**

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 soil geochemistry on 200m

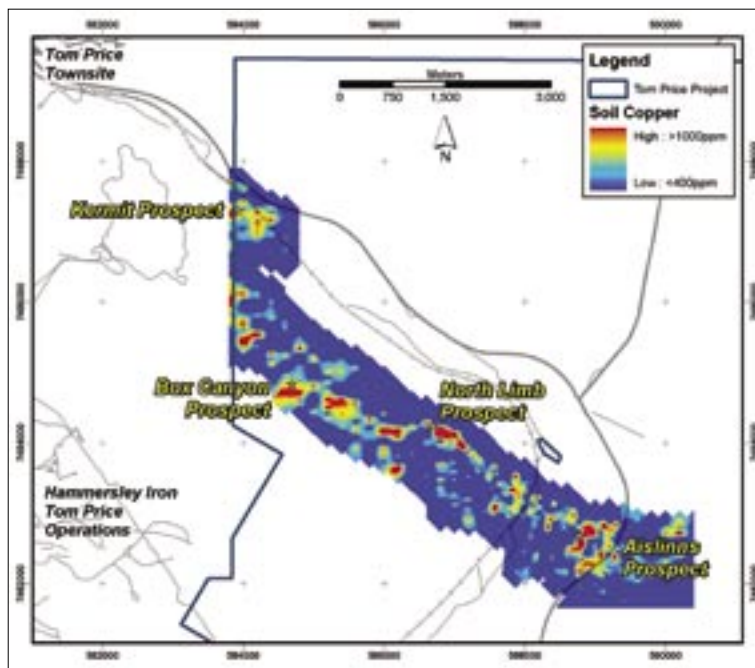


Figure 3: Tom Price Soil Sampling

x 40m centres. This work defined a series of strong, copper-zinc-gold-silver anomalies on the northern limb of the Turner Syncline (Figure 3). Outcropping oxide copper mineralisation was located at the Aislins and Kermit prospects with assays to 9.0% Cu and 16.3% Cu respectively.

**TOM PRICE:  
2007 – 2008 Objectives**

- **First pass RC drill evaluation of defined copper-zinc-gold-silver soil anomalies.**

**ANTICLINE PROJECT**

(TALISMAN MINING LTD – 100%)

**Iron Ore**

Royalty Agreement with Fortescue Metals Group Ltd. Royalty Agreement renegotiated from 10¢/tonne to 30¢/tonne, capped at \$8M (including Tom Price)

Fortescue Metals Group Ltd reported no work of significance completed during the year:

**Copper – Zinc – Gold - Silver**

A stream sediment geochemistry survey has been completed, with results expected in the September Quarter, 2007.

**ANTICLINE: 2007 – 2008 Objectives**

- **Gridded soil geochemistry coverage of defined stream sediment anomalous areas,**

**REVIEW OF OPERATIONS (cont...)**

**GOLD PROJECTS**

**TRILLBAR GOLD PROJECT**

(TALISMAN MINING LTD – 80%; MURCHISON RESOURCES PTY LTD – 20%)

During the 2006 - 2007 year of operations, Talisman has continued to focus its gold activities on the highly prospective Trillbar project in the Peak Hill Goldfield, Western Australia.

Work completed during the reporting year has included reverse circulation (RC) and aircore drilling, designed to both further evaluate the Boundary prospect and to define and evaluate new areas of gold mineralisation.

**Boundary Prospect**

Completion of further RC drilling during the year has defined mineralisation at the Main Lode at Boundary to a vertical depth of approximately 100 metres. The lode remains open below this depth with the deepest Main Lode intercept in drillhole TRC037 returning **35m @ 1.57g/t gold** (104 -139m, end of hole), **including 7m @ 4.75g/t gold**.

Prior to Talisman gaining title to the project area, the Boundary prospect had an identified resource of 314,000t @ 2.2g/t gold (22,200ozs). Drilling subsequently completed by Talisman has allowed for a resource recalculation, defining a JORC-compliant inferred resource, as detailed below:

Using 0.5g/t lower cut – 18g/t upper cut:  
**989,020 tonnes @ 1.57g/t Au (49,909ozs)**

Using 1.0g/t lower cut – 18g/t upper cut:  
**Inferred 423,098 tonnes @ 2.55g/t Au (34,670ozs)**

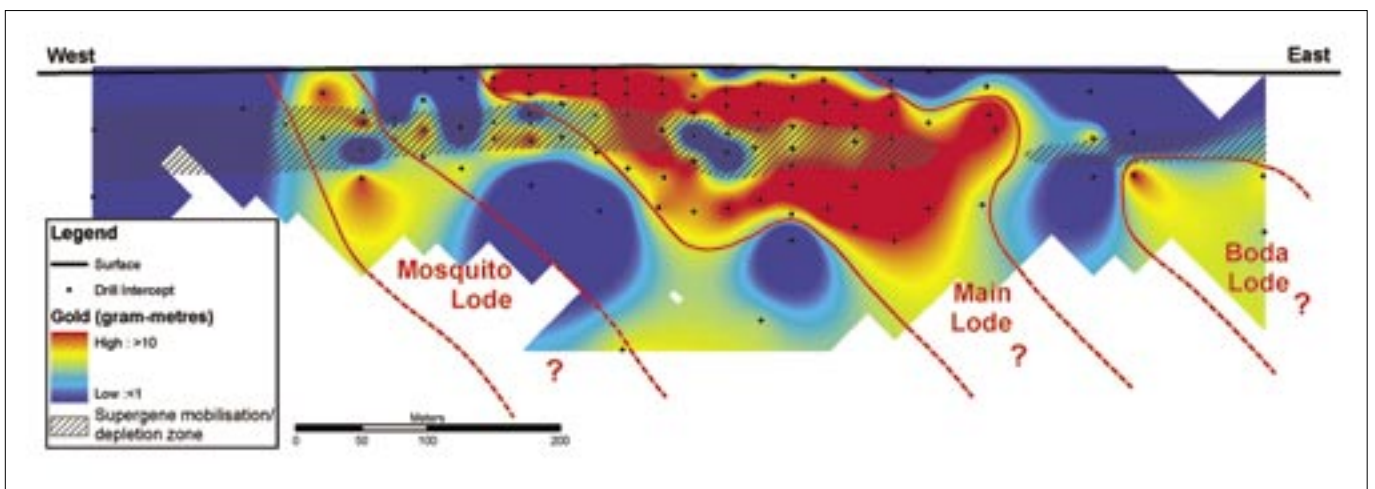
These resource recalculations represent 125% and 56% increases, respectively, on the inherited gold resource.

The smaller Boda and Mosquito Lodes along strike of the Main Lode to the east and west respectively remain poorly evaluated by drilling (Figure 4).

As the Boundary Main Lode has been adequately defined near surface, further work on the Boundary prospect has subsequently been suspended in order to concentrate on evaluation of the numerous other gold prospects within the project area.



*Reverse Circulation Drilling – Boundary Prospect.*



*Figure 4: Trillbar Project, Boundary Long Section (looking North)*

**Winja Prospect**

Initial RC drill evaluation of the Winja prospect in the preceding reporting year confirmed the occurrence of significant gold mineralisation initially indicated by drilling completed by a previous explorer. Further follow up RC drilling completed in two brief campaigns during the reporting year has confirmed and strongly enhanced the gold potential of this prospect with intercepts to **29m @ 5.2g/t gold** (Figure 5). Significant drill intercepts from these drill campaigns are detailed in Table 3 below.

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.

*Table 3: Winja Prospect – Significant RC Drill Intercepts, 2006 -2007*

Hole	East MGA	North MGA	From (m)	To (m)	Intercept (m)	Grade Cu (%)	
<b>Winja Prospect</b>							
TRC069	578762	7169222	41	42	1	1.31	o
TRC070	578760	7169262 (including	64 <b>68</b> 97	93 <b>77</b> 98	29 <b>9</b> 1	<b>5.20</b> <b>13.96</b> 1.36	f f f
TRC072	578799	7169222	37	40	3	1.10	o
TRC074	578836	7169187	19	20	1	1.28	o
TRC075	578836	7169222	55	56	1	1.16	o
TRC078	578718	7169222	60	61	1	1.04	o
TRC090	578832	7169204	32	37	5	1.32	o
TRC091	578795	7169202	25	27	2	1.36	o
TRC093	578767	7169202	40	41	1	2.77	o
TRC094	578777	7441240 (including	52 <b>56</b> 80	65 <b>59</b> 81	13 <b>3</b> 1	3.71 <b>7.69</b> 1.34	o o f
TRC098	578736	7169242	30	31	1	1.00	o
TRC099	578734	7169262	53	54	1	1.05	o
TRC103	578734	7169247	36	37	1	1.62	o

Note: o = oxide zone f = fresh rock

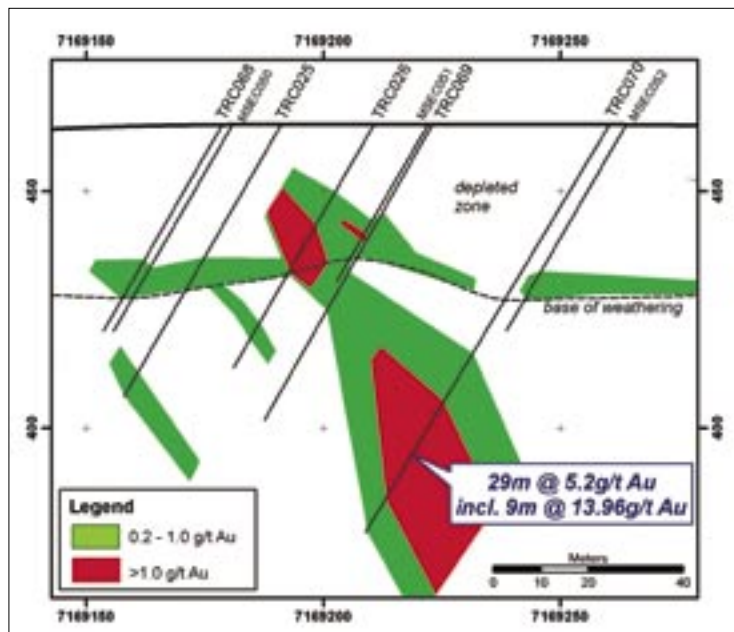


Figure 5: Winja Section 578760E

## REVIEW OF OPERATIONS (cont...)

### Reconnaissance

Completion of reconnaissance aircore drilling on 400m x 40m centres, predominantly to the west of Boundary and east and west of Winja, in combination with RAB drilling previously completed by Sons of Gwalia Ltd to the east, has defined numerous new gold anomalies of similar size and structural setting to the original Boundary anomaly (Figure 6). Eluvial gold has been located by metal detecting at four of these anomalies – Mosleys, Jules, Hilltop, VHF.

It is significant to note that in excess of 70% of the defined 'gold corridor' remains untested by any form of geochemistry.

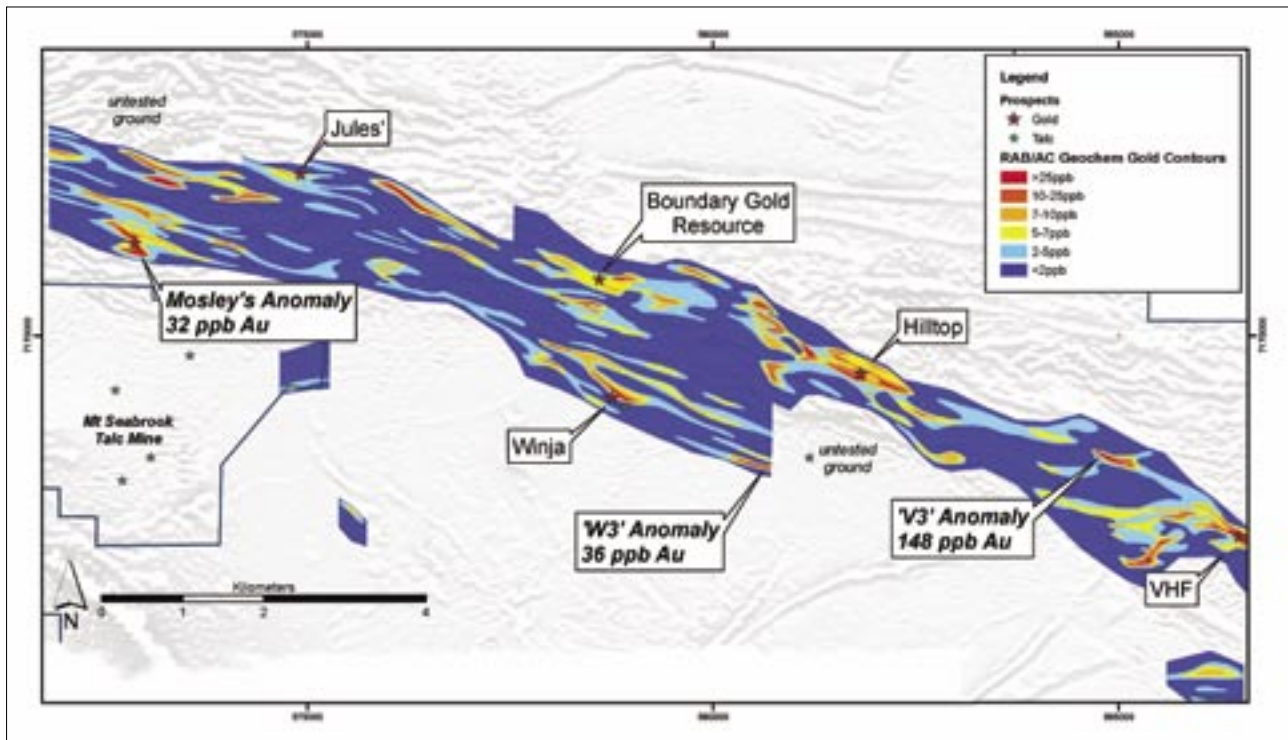


Figure 6: Trillbar Project Aircore Geochemistry

## TRILLBAR: 2007 – 2008 Objectives

- *Continuation of resource drilling at Winja prospect,*
- *Initial RC drill testing and follow up resource drilling at RAB / aircore and soil anomalies,*
- *Definition of further gold targets associated with host structures by soil geochemistry and RAB / aircore saprolite geochemistry.*

### MAITLAND GOLD PROJECT

(TALISMAN MINING LTD – 80%; MURCHISON RESOURCES PTY LTD – 20%)

Work completed at Maitland during the 2006 – 2007 year of operations has comprised completion of soil geochemistry over most of the greenstone belt and limited, first-pass RC drill evaluation of two defined gold anomalies.

### Reconnaissance Soil Geochemistry

Reconnaissance soil geochemistry at predominantly 200m x 40m centres has been completed over all of the Maitland Greenstone Belt not obscured by transported cover (Figure 7). In addition to strong gold-in-soil anomalies defined coincident with the abandoned gold workings at Maitland South and Maitland North, several anomalies were also defined coincident with the Mudawerrie BIF and in other areas of the greenstone belt. The significance of these latter anomalies is yet to be determined. Significantly, the Jacia copper-lead-silver-gold vein system to the north of Maitland South failed to register any significant anomaly.

**Mudawerrie BIF**

The Mudawerrie BIF has a total defined north – south strike length of approximately 18km near the eastern margin of the Maitland Greenstone Belt. Reconnaissance soil geochemistry completed on 200m x 40m centres had confirmed the gold – anomalous nature of the Mudawerrie BIF (Banded Iron Formation), first indicated by reconnaissance rock geochemistry with BIF samples assaying up to 4.0g/t gold. This soil geochemistry has defined several areas of strong gold anomalism coincident with the BIF at Mudawerrie, Snake Valley (Figure 7).

Two traverses of angled RC drillholes were completed across the Mudawerrie gold-in-soil anomaly in an attempt to define the cause of the anomaly. This program involved the completion of 6 drillholes for a total of 419 metres. Results of this drilling were discouraging with a best intercept of 2m @ 1.54g/t gold. Significant (> 1g/t gold) drill intercepts are listed in Table 4 below.

*Table 4: Mudawerrie Prospect – Significant RC Drill Intercepts, 2006 – 2007*

Hole	East MGA	North MGA	From (m)	To (m)	Intercept (m)	Grade Au (g/t)	
<i>Mudawerrie Prospect</i>							
MTC007	602742	7151290	13	15	2	1.54	o
MTC011	602774	7151209	33	34	1	1.18	o

Note: o = oxide intercept

Whilst these drill results were discouraging, subsequent mapping has indicated that the drillholes were drilled subparallel to the dip of the BIF and thus did not adequately test the anomaly.

**Maitland South**

The abandoned Maitland South gold working comprises a series of shallow shafts and pits exploiting a thin gold mineralised quartz vein in a metabasalt. Soil geochemistry completed by the Company had indicated a coincident strong gold-in-soil anomaly over the workings and strike extent of the mineralised vein system.

Two traverses of angled RC drillholes were completed beneath the abandoned workings to test the depth extensions of the exploited gold mineralisation. This drilling returned a best result of 4m @ 3.82g/t gold. Significant (> 1g/t gold) drill intercepts are listed in Table 5 below.

*Table 5: Maitland South Prospect – Significant RC Drill Intercepts, 2006 – 2007*

Hole	East MGA	North MGA	From (m)	To (m)	Intercept (m)	Grade Au (g/t)	
MTC002	601504	7148717	0	4	4	1.17	c
MTC011	601538	7148721 (including	66 67	76 71	10 4	2.02 3.82	f f
MTC005	601505	7148791	18	20	2	1.01	f

Note: f = fresh rock c = composite sample

**MAITLAND: 2007 – 2008 Objectives**

- Follow up drill evaluation at Maitland South
- First pass drill evaluation of prioritized gold-in-soil anomalies, including those associated with the Mudawerrie BIF

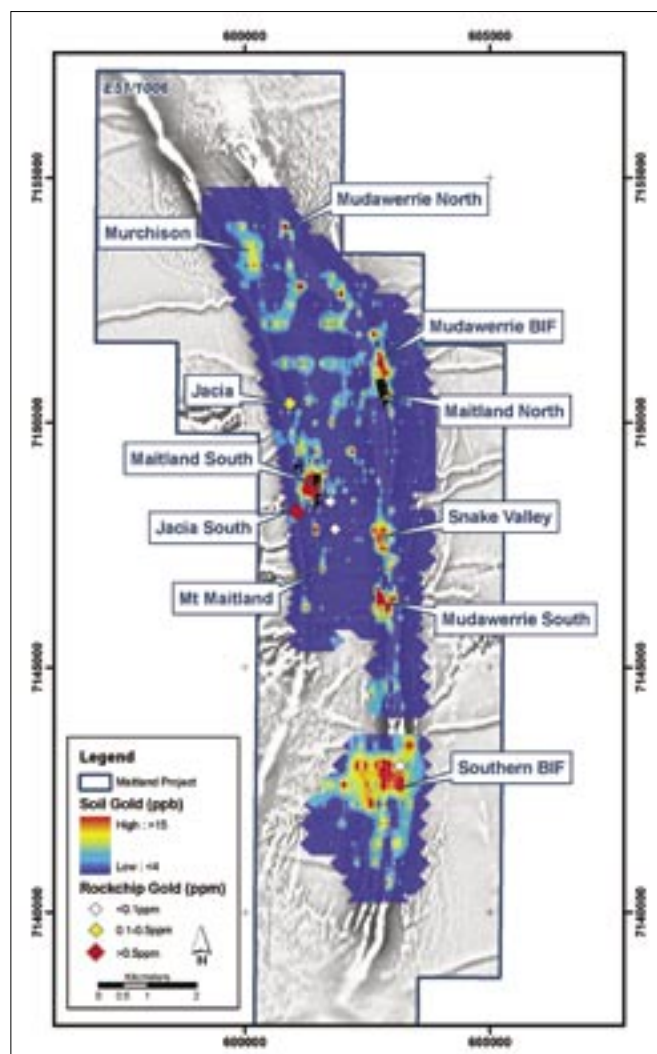


Figure 7: Maitland Soil Sampling (Gold)

**REVIEW OF OPERATIONS (cont...)**

**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. Whilst previous explorers have intersected significant gold mineralisation to 4m @ 8g/t gold at these prospects, Talismans exploration model is for high grade plunging lodes similar to those at the geologically similar Egerton and Glenburgh gold deposits to the east and west respectively.

Work completed during the reporting period comprised grid based soil geochemistry at 200m x 40m centres over the known prospects, and potential strike extensions. This work defined strong gold anomalies at Clever Mary in the east and West Point in the west (Figure 8). The Clever Mary anomaly extends off the Exploration Licence to the east, and the West Point anomaly appears to trend beneath transported cover in the west.

The defined anomalies confirm and enhance the anomalies defined by previous explorers and provide immediate targets for drill evaluation.

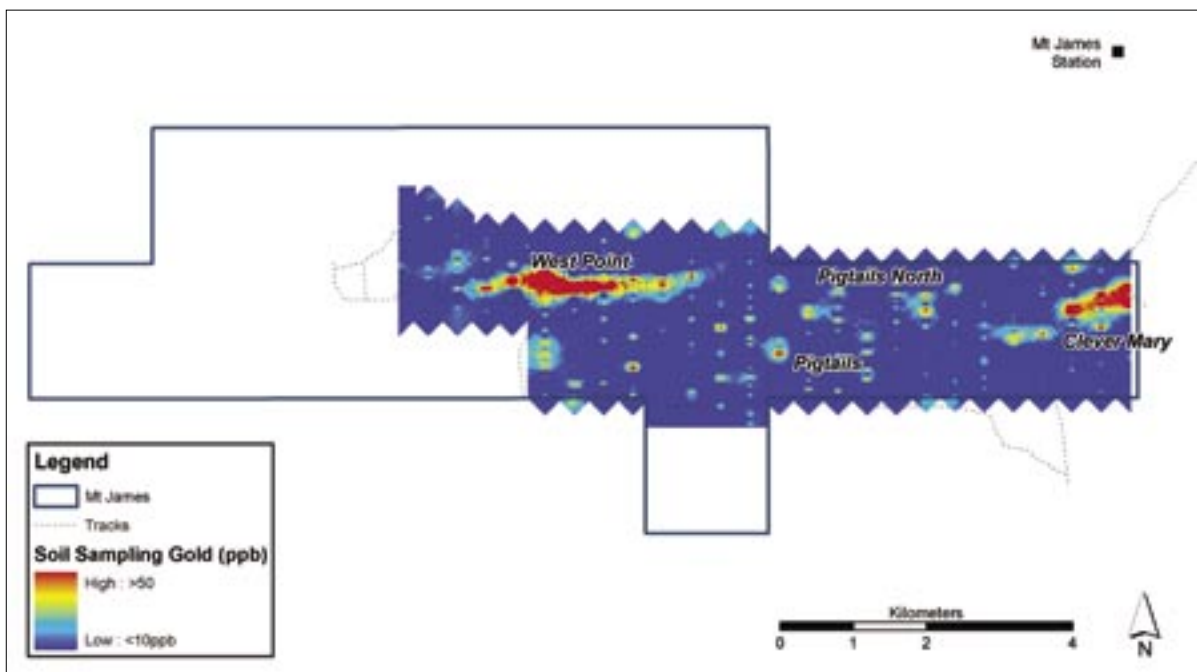


Figure 8: Mount James Project Soil Sampling

**MOUNT JAMES: 2007 – 2008 Objectives**

- **First pass RC drill evaluation of gold - in – soil anomalies and / or aeromagnetic-defined structural targets.**

**BUSTLERWELL 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.

Work completed during the reporting period comprised grid based soil geochemistry at 200m x 40m centres over the area of known gold mineralisation and potential strike extensions. This work defined a very strong 700m strike gold-in-soil anomaly coincident with and along strike from the previously defined high-grade gold mineralisation (Figure 9).

Any gold resources defined at Bustler Well would supplement gold resources that may be defined at Mount James project 10km to the southwest.

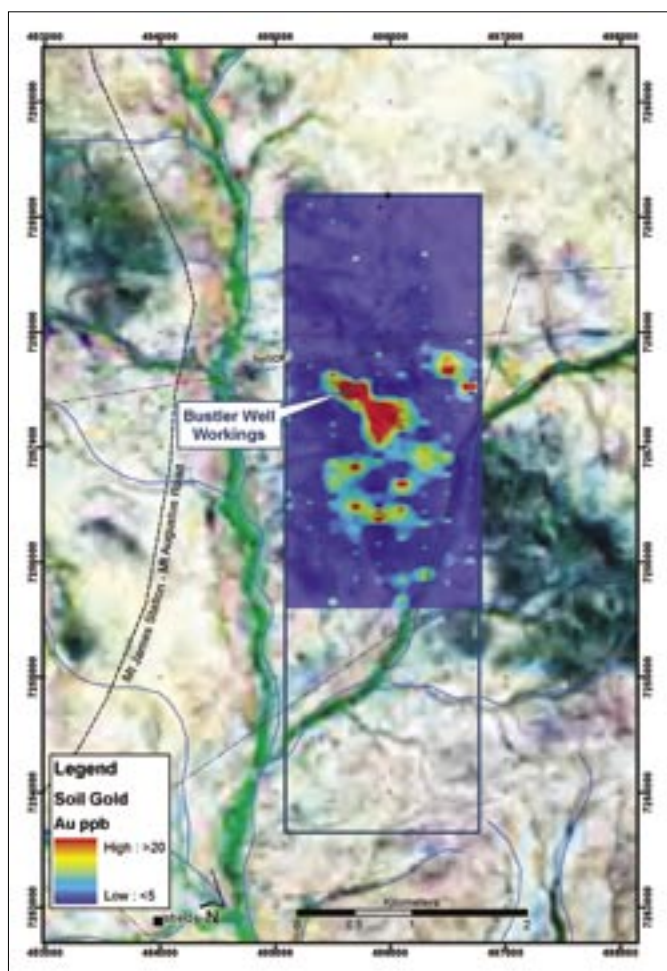


Figure 9: Bustler Well Soil Sampling



Bustler Well – Area of Gold-in-soil Anomaly.

**BUSTLER WELL:  
2007 – 2008 Objectives**

- *First pass RC drill evaluation of gold - in - soil anomalies.*

**NEW PROJECTS**

**EAST KIMBERLEY PROJECT**

(100% TALISMAN)

The East Kimberley project comprises three Exploration Licence applications situated adjacent to the operating Sally Malay Nickel mine in the East Kimberley region, Western Australia. The project area is considered to be prospective for nickel – copper –PGE mineralisation similar to that being exploited at Sally Malay. Exploration by previous explorers had been largely limited to reconnaissance surface geochemistry, with largely inconclusive results.

**EAST KIMBERLEY:  
2007 – 2008 Objectives**

- *Completion of a detailed stream sediment geochemical survey.*

**YILGALONG PROJECT**

(100% TALISMAN)

The Yilgalong project comprises two Exploration Licence applications in the East Pilbara region, Western Australia, encompassing predominantly Archaean volcanic rocks of the Fortescue Group, Hamersley Basin. Previous exploration of this area has been minimal with limited reconnaissance exploration by a previous explorer near the southern boundary returning rock assays to 68g/t gold, 1030g/t silver and 6.9% copper. The Company believes this largely unexplored area has good potential for the discovery of volcanogenic associated base and precious metal mineralisation.

**YILGALONG:  
2007 – 2008 Objectives**

- *Completion of a detailed stream sediment geochemical survey (underway).*



## REVIEW OF OPERATIONS (cont...)

### Uranium Joint Venture

Talisman has agreed, in principle, to form a joint venture with Proto Resources and Investments Ltd (Proto) to form a new Company, Protal Metals Group Ltd, which will hold the uranium rights for the Trillbar, Maitland, Wonmunna, Tom Price and Anticline projects, and all of the Copper Hills project, together with uranium, gold and base metals assets held by Proto.

It is intended that an IPO and an application to list on the Australian Securities Exchange be completed in early 2008.

Talisman will hold approximately 20% of the listed shares in the new entity after an IPO and listing on the Australian Securities Exchange.



## CORPORATE GOVERNANCE

### INTRODUCTION

Talisman Mining Limited ("Company") has adopted systems of control and accountability as the basis for the administration of Corporate Governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's Corporate Governance practices is set out on the Company's website at [www.talismanmining.com.au](http://www.talismanmining.com.au):

- Board and Management Responsibilities
- Board Composition
- Directors Code of Conduct
- Integrity in Financial Reporting
- Corporate Disclosure
- Shareholder Rights
- Risk Management
- Board and Management Performance
- Remuneration
- Stakeholders – Corporate Code of Conduct.

### Explanations for departures from Best Practice Recommendations

During the Reporting Period the Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, which can be found at the ASX Corporate Governance Council's website [www.asx.com.au/supervision/governance/index.htm](http://www.asx.com.au/supervision/governance/index.htm), other than in relation to the matters specified below.

Principle Ref	BPR Ref	Notification of Departure	Explanation for Departure
2	2.4	There is no nomination committee.	The duties usually performed by a nomination committee are carried out by the full Board.
4	4.3	The audit committee comprises 2 members.	The Board considers, given the Company's present structure, the 2 member committee is able to carry out a proper review process.

### TERM OF OFFICE OF EACH DIRECTOR

Name	Date of Appointment
Ian Macpherson	10 September 2002
Michael Hannington (resigned 31 July 2007)	5 July 2005
Michael (Mick) Bunyard	31 July 2007
Steven Elliott	1 August 1997

### IDENTIFICATION OF INDEPENDENT DIRECTORS

The independent Directors of the Company are Michael Hannington (until his resignation) and Michael (Mick) Bunyard. Mr Ian Macpherson also satisfies the criteria of independence as agreed to by the Board albeit that a company which Mr Macpherson is associated with provides Company Secretarial services to Talisman Mining Ltd. The fees received for the service do not constitute a material portion of the total earnings of the service provider.

### STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

#### Independent Professional Advice

If a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a Director then, provided the Director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

### NAMES OF NOMINATION COMMITTEE MEMBERS AND THEIR ATTENDANCE AT COMMITTEE MEETINGS

Nomination Committee responsibilities are carried out by the full Board. The following table identifies Directors who attended board meetings where nomination committee issues would be considered. No nomination committee issues were discussed during the year:

Name	No. of meetings where nomination committee issues were considered	No. of relevant meetings attended
Ian Macpherson	Nil	n/a
Michael Hannington	Nil	n/a
Steven Elliott	Nil	n/a

**CORPORATE GOVERNANCE (cont...)**

**NAMES AND QUALIFICATIONS OF AUDIT COMMITTEE MEMBER**

Audit Committee responsibilities are carried out by Mr Hannington (Chairman) (until his resignation on 31 July 2007), Mr Macpherson and Dr Bunyard (since his appointment on 31 July 2007). The Audit Committee was formed on 14 October 2005, prior to listing on the ASX.

Mr Hannington has 11 years experience in the minerals industry and is a qualified barrister. Mr Macpherson has 27 years experience as an accountant. Dr Bunyard has over 36 years experience in the minerals industry.

During the reporting period the Audit Committee held one meeting.

**CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED**

The Chairman conducts an evaluation of the Board's performance on an ongoing basis.

**COMPANY'S REMUNERATION POLICIES**

Mr Macpherson as a non-executive chairman and Mr Hannington and Dr Bunyard as non-executive Directors receive Directors fees of \$40,000 and \$25,000 respectively, per annum.

Mr Elliott received a fixed salary for the executive services he provides to the Company. Details are set out on note 7 of this Annual Report.

Remuneration levels for executives are set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

Each of the non-executive Directors receives a fixed fee for their services as Directors. There is no direct link between remuneration paid to any of the Directors and corporate performance such as bonus payments for achievement of certain key performance indicators.

**NAMES OF REMUNERATION COMMITTEE MEMBERS AND THEIR ATTENDANCE AT COMMITTEE MEETINGS**

Remuneration Committee responsibilities are carried out by Mr Macpherson (Chairman), Mr Hannington (until his resignation on 31 July 2007) and Dr Bunyard (since his appointment on 31 July 2007). During the reporting period the Remuneration Committee held one meeting.

**EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS**

There are no termination and retirement benefits for non-executive Directors.

## DIRECTORS' REPORT

The Directors of Talisman Mining Ltd submit herewith the annual financial report of the Company for the financial year ended 30 June 2007. 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
- Steven Elliott
- Michael (Mick) Bunyard
- Michael Hannington

Directors have been in office since the start of the financial year and up to the date of this report except for:

- Michael (Mick) Bunyard – appointed 31 July 2007
- Michael Hannington – resigned 31 July 2007

### 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, Nimrodel Resources Limited and Coal FE Resources Limited.

Mr Macpherson is a 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
Visiomed Group Limited	27 July 1995	Current
Navigator Resources Limited	3 July 2003	Current
Coal FE Resources Limited	15 November 2006	Current
Nimrodel Resources Limited	19 July 2007	Current
Helix Resources Limited	26 August 1985	1 December 2004
Preston Resources Limited	9 March 2004	22 November 2004
Precious Metals Australia Limited	3 March 2004	3 February 2006

**Steven 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.

## DIRECTORS' REPORT (cont...)

**Michael (Mick) Bunyard** *PhD, BSc, FAustMM, MIOM<sup>3</sup>, CEng*  
**Non-Executive Director** (appointed 31 July 2007)

Mick has over 36 years experience in the minerals industry in research, operation and management and projects development both in Australia and overseas. He has gained operating and management experience in South Africa and was worked as a consulting engineer for a number of major engineering companies since coming to Australia in 1988. He has participated in and managed all aspects of ore testing, process development, feasibility studies, plant design and commissioning for base metals, gold, uranium, iron ore and industrial minerals.

Mick is a graduate from the University of Leeds in 1970 with a BSc in Minerals Processing followed by a Ph D in 1973.

Mick is a fellow of the Australian Institute of Mining and Metallurgy, member of the IOM<sup>3</sup> and a Chartered Engineer.

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

### Company Secretary

**Darren Crawte** *LL.B (Hons), ACA*  
**Company Secretary** (appointed 27 February 2007)

Darren is a qualified Chartered Accountant with 9 years experience working within public practice, specifically within the area of audit and assurance both in Australia and the United Kingdom. He holds similar secretarial roles in various other listed public companies.

### Principal activities

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

### Review of Operations

Talisman's Review of Operations is referred to on pages 3 to 14 of this report.

### Changes in state of affairs

The following significant changes in the state of affairs of the Company occurred during the financial year:

- (i) The Company announced that an agreement in principle was reached; to vend its uranium exploration assets with Proto Resources and Investments Ltd into a new company to be called Protal Metals Group Ltd, with this company to subsequently raise funds to continue exploration and development via an Initial Public Offer and subsequent application for listing on the Australian Securities Exchange. This divestment will enable the Company to concentrate on the development of its iron ore, gold and base metal assets, whilst retaining exposure to the booming uranium sector via a substantial shareholding in the new entity.
- (ii) The Company issued 7.0 million fully paid ordinary shares and 17.6 million listed options exercisable at 20 cents on or before 31 December 2010 to raise \$1.25 million.
- (iii) The Company issued 1.1 million fully paid ordinary shares to acquire tenements and 606,665 fully paid ordinary shares in part settlement of exploration costs.
- (iv) The Company announced in May 2007 a share placement of up to 15.0 million fully paid shares at 14 cents each together with a single free option for every three shares allocated by way of the placement to raise a total of \$2.1 million. This was successfully completed after 30 June 2007.

Other than the above, there was no significant change in the state of affairs of the Company during the financial year.

### Subsequent events

On 10 and 11 July 2007, 3,010,714 fully paid ordinary shares and 1,003,567 free attaching options exercisable at 20 cents each expiring 31 December 2010 were issued pursuant to a share placement made prior to 30 June 2007. Proceeds from the issue totalled \$421,500.

On 4 September 2007, the Company announced the successful completion of the \$2.1 million share placement with the issue of the remainder 11,989,280 fully paid ordinary shares at 14 cents (total: \$1,678,499) and 3,996,404 free attaching options exercisable at 20 cents each expiring 31 December 2010. The successful completion of the share placement by the manager, RM Capital will result in the issue of 3,000,000 new options exercisable at 20 cents each expiring 31 December 2010. At the date of this report, these options have not yet been issued.

The Company issued a further 606,665 fully paid ordinary shares on 2 July 2007 as part settlement of drilling costs. In addition, 550,000 unlisted options exercisable at 25 cents each expiring 31 December 2010 were issued on 3 September 2007 under the Employee Share Option Plan.

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 2007.

### Share options

#### Share options granted to Directors and executives

During and since the end of the financial year an aggregate of share options were granted to the following Directors of the Company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Ian Macpherson	1,000,000	Talisman Mining Ltd	1,000,000
Steven Elliott	1,000,000	Talisman Mining Ltd	1,000,000
Michael Hannington	750,000	Talisman Mining Ltd	750,000

#### Share options that expired/lapsed

No options expired or lapsed during or since the end of the financial year.

#### Share options granted to employees

During and since the end of the financial year 550,000 share options were granted to employees of the Company.

#### Share options on issue or exercised

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

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Talisman Mining Ltd (quoted)	17,632,668	Ordinary	20 cents	31 December 2010
Talisman Mining Ltd	3,900,000	Ordinary	25 cents	30 June 2008
Talisman Mining Ltd	2,750,000	Ordinary	25 cents	31 December 2010
Talisman Mining Ltd (i)	550,000	Ordinary	25 cents	31 December 2010

(i) These options were granted by Board resolution on 11 May 2007 and subsequently issued on 3 September 2007.

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 or up to the date of this report 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.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### 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, nine board meetings were held. One remuneration committee meeting and one audit committee meetings were held during year.

Directors	Board of Directors		Remuneration committee		Audit committee	
	Held	Attended	Held	Attended	Held	Attended
Ian Macpherson	9	9				
Michael Hannington	9	8				
Steven Elliott	9	8	*		*	

\* Not a member of the relevant committee

The Directors also passed 1 circular resolution.

## DIRECTORS' REPORT (cont...)

### 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	1,600,001
Steven Elliott	5,100,002	6,566,668
Mick Bunyard	-	50,000

## 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
- Steven Elliott
- Michael Hannington– resigned 31 July 2007

There were no specified executives of the Company during the year.

### Elements of Director and executive remuneration

Remuneration packages contain the following key elements:

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

The following table discloses the remuneration of the Directors of the Company:

	Short Term			Post-employment			Equity	Other	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	benefits	
2007	\$	\$	\$	\$	\$	\$	\$	\$	\$
Ian Macpherson	40,000	-	-	-	-	-	110,112	3,888	154,000
Steven Elliott	125,000	-	-	11,250	-	-	110,112	7,743	254,105
Michael Hannington	25,000	-	-	2,250	-	-	82,585	3,888	113,723
Total	190,000	-	-	13,500	-	-	302,809	15,519	521,828

### Elements of remuneration related to performance

During the year the Board and Shareholders approved the issue of 2,750,000 options to Directors to subscribe for ordinary shares in Talisman Mining Ltd at an exercise price of 25 cents per ordinary share. The options can be exercised on or before 31 December 2010.

**Value of options issued to Directors and Executives**

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options Granted Value at grant date \$	Options Exercised Value at exercise date \$	Options Lapsed Value at time of lapse \$	Total value of options granted, exercised and lapsed \$	Value of options included in remuneration for the year \$	Percentage of total remuneration for the year that consists of options %
Ian Macpherson	110,112	-	-	110,112	110,112	71.5
Steven Elliott	110,112	-	-	110,112	110,112	43.3
Michael Hannington	82,585	-	-	82,585	82,585	72.6

**Value of options - basis of calculation**

The following factors and assumptions were used in determining the fair value of options at grant date:

Grant Date	Expiry Date	Fair Value per Option (cents)	Exercise Price (cents)	Share Price on Grant Date (cents)	Estimated Volatility %	Risk Free Interest Rate %
22 November 2006	31 December 2010	11.0	25	20	75.0	6.0

**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.

**Non-audit services**

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

**Auditor's independence declaration**

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 22 of the financial report.

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



Steven Elliott  
Director

Perth, 27 September 2007



**INDEPENDENCE DECLARATION TO THE DIRECTORS OF TALISMAN MINING LTD**

**Stantons International**

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET  
WEST PERTH WA 6005, AUSTRALIA  
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204  
www.stantons.com.au

27 September 2007

Board of Directors  
Talisman Mining Ltd  
6 Centro Avenue  
SUBIACO WA 6008

Dear Directors

**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 2007, 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

### Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET  
WEST PERTH WA 6005, AUSTRALIA  
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204  
[www.stantons.com.au](http://www.stantons.com.au)

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TALISMAN MINING LTD

##### Report on the Financial Report

We have audited the accompanying financial report of Talisman Mining Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

##### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 3, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Company, comprising the financial statements and notes, complies with International Financial Reporting Standards.

##### *Auditor's Responsibility*

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

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TALISMAN MINING LTD (cont...)

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

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

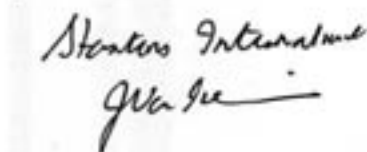
### *Independence*

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

### *Auditor's Opinion*

1. In our opinion:
  - (a) the financial report of Talisman Mining Ltd is in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
  - (b) the financial report of the Company also complies with International Financial Reporting Standards as disclosed in note 3.

### **STANTONS INTERNATIONAL (An Authorised Audit Company)**



**J P Van Dieren**  
Director

West Perth, Western Australia  
27 September 2007

## 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 as at 30 June 2007 and performance of the Company for the financial year ended on that date; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.



Steven Elliott  
Director

Perth, 27 September-2007

**INCOME STATEMENT**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	<b>Note</b>	<b>2007</b> \$	<b>2006</b> \$
Revenue	5	45,026	193,608
Employee benefits expense		(514,277)	(71,117)
Finance costs		(1,209)	(662)
Depreciation		(18,403)	(7,051)
Consulting expense		(99,222)	(167,664)
Occupancy expense		(40,919)	(20,234)
Administration expenses		(130,307)	(109,382)
<b>Loss from continuing operations before income tax expense/benefit</b>	5	(759,311)	(182,502)
Income tax expense/benefit	6	-	-
<b>Loss from continuing operations attributable to members</b>		(759,311)	(182,502)
<b>Loss per share:</b>			
Basic (cents per share)	21	(1.84)	(0.67)
Diluted (cents per share)	21	(1.84)	(0.67)

Notes to the financial statements are included on pages 30 to 46.

**BALANCE SHEET**

AS AT 30 JUNE 2007

	Note	2007 \$	2006 \$
<b>Current assets</b>			
Cash and cash equivalents	27	667,310	1,361,687
Trade and other receivables	10	55,541	51,573
<b>Total current assets</b>		722,851	1,413,260
<b>Non-current assets</b>			
Property, plant and equipment	11	84,592	52,147
Exploration, evaluation and development	12	3,406,682	1,355,351
Other financial assets	13	1	-
<b>Total non-current assets</b>		3,491,275	1,407,498
<b>Total assets</b>		4,214,126	2,820,758
<b>Current liabilities</b>			
Trade and other payables	14	141,050	186,328
Borrowings	15	22,972	-
Provisions	16	29,160	9,488
<b>Total current liabilities</b>		193,182	195,816
<b>Non-current liabilities</b>			
Borrowings	15	16,684	-
<b>Total non-current liabilities</b>		16,684	195,816
<b>Total liabilities</b>		209,866	195,816
<b>Net assets</b>		4,004,260	2,624,942
<b>Equity</b>			
Issued capital	17	4,933,096	3,740,632
Share application proceeds	18	421,500	-
Reserves	19	524,665	-
Accumulated losses	20	(1,875,001)	(1,115,690)
<b>Total equity</b>		4,004,260	2,624,942

Notes to the financial statements are included on pages 30 to 46.

**STATEMENT OF CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

For the year ended 30 June 2007	Attributable to equity holders				Total Equity \$
	Ordinary Shares \$	Share Application Proceeds \$	Reserves \$	Accumulated Losses \$	
At beginning of year	3,740,632	-	-	(1,115,690)	2,624,942
Loss for the year	-	-	-	(759,311)	(759,311)
Issue of shares	1,295,000	-	-	-	1,295,000
Shares to be issued (note 17)	121,333	-	-	-	121,333
Receipt of share application proceeds	-	421,500	-	-	421,500
Issue of options	-	-	176,326	-	176,326
Cost of share-based payments	-	-	348,339	-	348,339
Share issue expenses	(223,869)	-	-	-	(223,869)
At end of year	4,933,096	421,500	524,665	(1,875,001)	4,004,260

For the year ended 30 June 2006	Attributable to equity holders				Total Equity \$
	Ordinary Shares \$	Share Application Proceeds \$	Reserves \$	Accumulated Losses \$	
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
Share issue expenses	(370,466)	-	-	-	(370,466)
At end of year	3,740,632	-	-	(1,115,690)	2,624,942

Notes to the financial statements are included on pages 30 to 46.

**CASH FLOW STATEMENT**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		-	-
Interest received		45,026	-
Payments to suppliers and employees		(451,591)	(251,144)
Interest and other costs of finance paid		(1,209)	(662)
Net cash used in operating activities	27(b)	(407,774)	(251,806)
<b>Cash flows from investing activities</b>			
Interest received		-	61,033
Payment for property, plant and equipment		(7,934)	(53,120)
Payment for exploration and evaluation		(1,821,152)	(962,150)
Payment for investment in joint venture company		(1)	-
Net cash used in investing activities		(1,829,087)	(954,237)
<b>Cash flows from financing activities</b>			
Proceeds from convertible notes		-	49,000
Proceeds from issues of equity securities		1,254,326	2,884,600
Proceeds from share applications		421,500	-
Payment for share issue costs		(125,792)	(370,466)
Repayment of borrowings		(7,550)	-
Net cash provided by financing activities		1,542,484	2,563,134
<b>Net increase/(decrease) in cash and cash equivalents</b>		(694,377)	1,357,091
<b>Cash and cash equivalents at the beginning of the financial year</b>		1,361,687	4,596
<b>Cash and cash equivalents at the end of the financial year</b>	27(a)	667,310	1,361,687

Notes to the financial statements are included on pages 30 to 46.



## NOTES TO THE FINANCIAL STATEMENTS

### I. GENERAL INFORMATION

Talisman Mining Limited (the Company) is a listed public Company, incorporated in Australia and operating in Australia.

The Company's registered office and its principal place of business are as follows:

Registered office	Principal place of business
c/o Ord Group Pty Ltd Level 2, 47 Colin Street West Perth WA 6005	6 Centro Avenue Subiaco WA 6008

### 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Company's accounting policies nor have affected the amounts reported for the current or prior years.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 101 'Presentation of Financial Statements' – revised standard	Effective for annual reporting periods beginning on or after 1 January 2007
Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company. These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the Company's annual reporting period beginning on 1 July 2007.

### 3. 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 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 27 September 2007.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

#### Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Company has incurred a net loss after tax for the year ended 30 June 2007 of \$759,311 (2006: \$182,502) and experienced net cash outflows from operating activities of \$407,774 (2006: \$251,806). As at 30 June 2007, the Company had net current assets of \$529,669 (2006: \$1,217,444).

The Directors have taken steps to ensure the Company continues as a going concern, including completion of the \$2.1 million share placement announced in May 2007. This resulted in the receipt of \$421,500 prior to the 30 June 2007 and the remaining balance of \$1,678,499 being received after 30 June 2007.

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.

#### (b) Employee benefits

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

### (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).

## NOTES TO THE FINANCIAL STATEMENTS (cont...)

### 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.

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

Deferred tax assets and liabilities are 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

The Company is an 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 permits 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.

**(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 diminishing value basis and on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. 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 – 50.0
• Motor vehicle	18.75

**(n) Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and reward incidental to ownership of the leased asset to the lessee (note 14). Finance leases are capitalised at the lease's inception at the fair value of the leased property, or if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is amortised on a diminishing value basis over the estimated useful life of the asset.

All other leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**(o) 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.

**(p) 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.

**(q) 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.

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in note 3, 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.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**NOTES TO THE FINANCIAL STATEMENTS (cont...)**

*Key estimates — impairment*

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. No impairment loss was recorded in the current financial year (2006: nil).

*Key estimates — share based payments*

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model, using the assumptions detailed in Note 8.

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>5. LOSS FROM OPERATIONS</b>		
<b>(a) Revenue</b>		
Forgiveness of debt	-	132,575
Interest revenue	45,026	61,033
<b>(b) Loss before income tax</b>		
Loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Interest under finance leases	1,119	-
Other interest expense	90	622
<b>Total interest expense</b>	<b>1,209</b>	<b>622</b>
Depreciation of non-current assets	18,403	7,051
Employee benefit expense:		
Post employment benefits:		
Defined contribution plans	48,999	18,056
Share-based payments:		
Equity settled share-based payments	348,339	-
<b>6. INCOME TAXES</b>		
<b>Income tax recognised in profit or loss</b>		
<b>Tax expense/(income) comprises:</b>		
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
<b>Total tax expense/(income)</b>	<b>-</b>	<b>-</b>
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	(759,311)	(182,502)
Income tax expense calculated at 30%	(227,793)	(54,751)
Effect of expenses that are not deductible in determining taxable profit	105,121	15,200
Effect of non assessable items in determining taxable profit	(135)	(39,773)
Unused tax losses and temporary differences not recognised as deferred tax assets	122,807	79,324
<b>Income tax attributable to operating loss</b>	<b>-</b>	<b>-</b>
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.		
<b>Unrecognised deferred tax balances</b>		
The following deferred tax assets and (liabilities) have not been brought to account:		
Tax losses – revenue	1,286,461	520,127
Temporary differences arising from exploration, evaluation and development	(1,022,005)	(406,605)
Temporary differences	111,300	75,114
	<b>375,756</b>	<b>188,636</b>

**6. INCOME TAXES (cont...)**

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 an Australian resident entity for tax purposes and has no subsidiaries.

**7. KEY MANAGEMENT PERSONNEL REMUNERATION**

The Directors of Talisman Mining Ltd during the year were:

- Ian Macpherson
- Michael Hannington
- Steven Elliott

There were no other key management personnel of the Company during the year.

**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.

**Directors' remuneration**

Directors	Short Term			Post-employment			Equity	Other	Total
	Salary & fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Prescribed benefits \$	Other \$	Options \$	benefits (insurance) \$	\$
<b>2007</b>									
Ian Macpherson	40,000	-	-	-	-	-	110,112	3,888	154,000
Steven Elliott	125,000	-	-	11,250	-	-	110,112	7,743	254,105
Michael Hannington	25,000	-	-	2,250	-	-	82,585	3,888	113,723
Total	190,000	-	-	13,500	-	-	302,809	15,519	521,828
<b>2006</b>									
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

There were no other key management personnel during the year.

Further information on options issued and transactions with related parties are described in notes 8 and 24 being share-based payments and related party disclosures respectively.

**8. SHARE-BASED PAYMENTS****(a) Directors and Employees**

The Company has an ownership-based compensation arrangement for employees of the Company.

Each option issued under the arrangement converts into one ordinary share of Talisman Mining Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. Options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

**NOTES TO THE FINANCIAL STATEMENTS (cont...)**

**8. SHARE-BASED PAYMENTS (cont...)**

The number of options granted is at the sole discretion of the Directors.

Incentive options issued to Directors (executive and non-executive) are subject to approval by shareholders and attach vesting conditions as appropriate.

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
(1) 30 June 2008	3,900,000	(i)	30 June 2008	0.25	(i)
(2) 31 December 2010	2,750,000	22 November 2006	31 December 2010	0.25	0.110
(3) 31 December 2010	550,000 (ii)	11 May 2007	31 December 2010	0.25	0.082

(i) Options were granted and vested prior to 1 January 2005 and accordingly no fair value has been calculated. Refer note 3(q).

(ii) These options were granted on 11 May 2007 and subsequently issued on 3 September 2007. Refer note 26.

The fair value of the share options granted during the financial year is \$348,339 (2006: Nil). Options were priced using a Black and Scholes model. The expected life used in the model has not been adjusted. Expected volatility is based on the movement of the underlying share price around its average price over the previous 12 months. No allowance has been made for the effects of early exercise.

Inputs into the model	Option series (2) 31 December 2010	Option series (3) 31 December 2010
Grant date share price	20 cents	17 cents
Exercise price	25 cents	25 cents
Expected volatility	75%	75%
Option life	4.1 years	3.6 years
Dividend yield	Nil	Nil
Risk-free interest rate	6.0%	6.1%

**(b) Contractors/Advisors**

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

At 30 June 2007, in settlement of \$121,333 drilling costs the Company recognised equity of \$121,333 representing 606,665 fully paid ordinary shares at 20 cents each. These shares were subsequently issued on 2 July 2007 (refer note 26).

In settlement of the share placement announced on 18 October 2006, RM Capital was issued 4,200,000 new options exercisable at 20 cents each. These options are on the same terms as the listed TMLO options which were issued to shareholders at an issue price of 1 cent per option.

As part of the consideration for managing the \$2.1 million share placement which occurred during the year, RM Capital were entitled to receive a maximum 3,000,000 new options exercisable at 20 cents each on the same terms as existing listed TLMO options. At the year end, \$421,500 had successfully been raised resulting in the recognition of an expense of \$30,797 representing the fair value of 632,250 options to be issued. These share options are to be issued to contractors/advisors during the 2007/2008 financial year.

Following completion of the placement post year end, the maximum number of options of 3,000,000 are to be issued (refer note 26). At the date of this report, these options have not yet been issued.

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
(1) 30 June 2008	632,250	30 June 2007	31 December 2010	0.20	0.049
(2) 31 December 2010	4,200,000	23 November 2006	31 December 2010	0.20	0.010

**8. SHARE-BASED PAYMENTS (cont...)**

The following factors and assumptions were used in determining the fair value of options at grant date:

Inputs into the model	Option series (1) 31 December 2010	Option series (2) 31 December 2010 (quoted)
Grant date share price	20 cents	(ii)
Exercise price	20 cents	20 cents
Expected volatility	(i)	(ii)
Option life	3.5 years	(ii)
Dividend yield	Nil	(ii)
Risk-free interest rate	(i)	(ii)

(i) Quoted options and average price quoted over the period from the commencement of the placement to grant date was 0.49 cents per option.

(ii) These are listed options and had an issue price of 1 cent per option at the date of grant.

The following reconciles the outstanding share options granted under all share based payment arrangements at the beginning and end of the financial year:

	2007		2006	
	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
Granted during the financial year – Directors and employee	3,300,000	0.25	-	-
Granted during the financial year – contractors/ advisors	4,832,250	0.20	-	-
Balance at end of the financial year (i)	12,032,250	0.23	3,900,000	0.25
Exercisable at end of the financial year	8,100,000	0.23	3,900,000	0.25

**(i) Balance at end of the financial year**

The share options outstanding at the end of the financial year had a weighted average exercise price of 23 cents and a weighted average remaining contractual life of 2.7 years.

	2007 \$	2006 \$
<b>9. REMUNERATION OF AUDITORS</b>		
Audit or review of the financial report	17,545	11,249
Other services (Independent Accountants report)	-	4,353
	17,545	15,602

The auditor of Talisman Mining Ltd is Stantons International.

**10. CURRENT TRADE AND OTHER RECEIVABLES**

Other debtors	16,349	10,659
Goods and services tax (GST) recoverable	22,359	40,914
Prepayments	16,833	-
	55,541	51,573



NOTES TO THE FINANCIAL STATEMENTS (cont...)

11. PROPERTY, PLANT AND EQUIPMENT

	Office furniture and equipment at cost \$	Motor vehicle under finance lease \$	Total \$
<b>Gross carrying amount</b>			
Balance at 1 July 2005	19,376	-	19,376
Additions	53,120	-	53,120
Disposals	-	-	-
<b>Balance at 1 July 2006</b>	<b>72,496</b>	<b>-</b>	<b>72,496</b>
Additions	7,274	43,574	50,848
Disposals	-	-	-
<b>Balance at 30 June 2007</b>	<b>79,770</b>	<b>43,574</b>	<b>123,344</b>
<b>Accumulated depreciation/amortisation and impairment</b>			
Balance at 1 July 2005	13,298	-	13,298
Disposals	-	-	-
Depreciation expense	7,051	-	7,051
<b>Balance at 1 July 2006</b>	<b>20,349</b>	<b>-</b>	<b>20,349</b>
Disposals	-	-	-
Depreciation expense	15,070	3,333	18,403
<b>Balance at 30 June 2007</b>	<b>35,419</b>	<b>3,333</b>	<b>38,752</b>
<b>Net book value</b>			
As at 30 June 2006	52,147	-	52,147
As at 30 June 2007	44,351	40,241	84,592
		<b>2007 \$</b>	<b>2006 \$</b>

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

Office furniture and equipment	15,070	13,174
Motor vehicle under finance lease	3,333	-
	18,403	13,174

12. EXPLORATION, EVALUATION & DEVELOPMENT

Carry forward expenditure	1,355,351	777,150
Capitalised during the year	2,051,331	1,162,150
Balance at end of year	3,406,682	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.

13. OTHER FINANCIAL ASSETS

Investment in jointly controlled entity, at cost		-
		-

The Company has a 50% interest in the ordinary share capital of Protal Metals Group Ltd as at 30 June 2007. As at that date, Protal Metals Group Ltd had net assets of \$2.00.

	2007 \$	2006 \$
<b>14. CURRENT TRADE AND OTHER PAYABLES</b>		
Trade payables (i)	35,496	114,162
Other payables	38,967	43,251
Accruals	66,587	28,915
	141,050	186,328

(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 28).

**15. BORROWINGS****Current**

Lease liabilities (refer note 22)	22,972	-
	22,972	-

**Non-Current**

Lease liabilities (refer note 22)	16,684	-
	16,684	-

**Security**

Lease liabilities are effectively secured as the rights to the leased asset recognised in the financial statements revert to the lessor in the event of default.

**16. CURRENT PROVISIONS**

Employee benefits	29,160	9,488
	29,160	9,488

**17. ISSUED CAPITAL**

45,504,671 fully paid ordinary shares (2006: 36,798,006)	4,933,096	3,740,632
	4,933,096	3,740,632

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.

	2007		2006	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	36,798,006	3,740,632	11,112,506	977,498
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)	1,100,000	175,000	1,000,000	200,000
Shares to be issued (ii)	606,665	121,333	-	-
Share placement	7,000,000	1,120,000	-	-
Share issue costs	-	(223,869)	-	(370,466)
Balance at end of financial year	45,504,671	4,933,096	36,798,006	3,740,632

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

(i) The fair value was determined by reference to the trading price of the shares at the time of acquisition (2006: price on listing on the Australian Securities Exchange).

**NOTES TO THE FINANCIAL STATEMENTS (cont...)**

**17. ISSUED CAPITAL (cont...)**

(ii) These shares were subsequently issued on 2 July 2007. Refer note 8 and 26.

**Share options**

As at 30 June 2007, options over ordinary shares in aggregate are as follows:

**Share options on issue at year end**

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 (Quoted)	17,632,668	Ordinary	20 cents each	31 December 2010
Talisman Mining Ltd	3,900,000	Ordinary	25 cents each	30 June 2008
Talisman Mining Ltd	2,750,000	Ordinary	25 cents each	31 December 2010
Talisman Mining Ltd (i)	550,000	Ordinary	25 cents each	31 December 2010

The 17,632,668 are quoted options. All other share options are unlisted options, carry no rights to dividends and no voting rights.

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

(i) These options were granted on 11 May 2007 and subsequently issued on 3 September 2007. Refer note 26.

**2007**                      **2006**  
**\$**                                      **\$**

**18. SHARE APPLICATION PROCEEDS**

Balance at beginning of financial year	-	-
Proceeds from 3,010,714 unissued shares at 14 cents each pursuant to a share placement. Shares were subsequently issued post year end (refer note 26)	421,500	-
Balance at end of financial year	421,500	-

**19. RESERVES**

Option premium reserve	176,326	-
Equity-settled employee benefits reserve	348,339	-
	524,665	-

**Option premium reserve**

Balance at beginning of financial year	-	-
17,632,668 listed options issued at 1 cents each pursuant to a prospectus dated 18 October 2006	176,326	-
Balance at end of financial year	176,326	-

**Equity-settled employee benefits reserve**

Balance at beginning of financial year	-	-
Share based payments	348,339	-
Balance at end of financial year	348,339	-

The equity-settled employee benefits reserve arises on the grant of share options to Directors and employees under the share option arrangement. Amounts are transferred out of this reserve and into issued capital when the options are exercised. Further information about share-based payments is made in note 8 to the financial statements.

	<b>2007</b> <b>\$</b>	<b>2006</b> <b>\$</b>
<b>20. ACCUMULATED LOSSES</b>		
Balance at beginning of financial year	(1,115,690)	(933,188)
Net loss attributable to members of the Company	(759,311)	(182,502)
Balance at end of financial year	(1,875,001)	(1,115,690)
	<b>2007</b> <b>Cents</b> <b>per share</b>	<b>2006</b> <b>Cents</b> <b>per share</b>

**21. LOSS PER SHARE****Basic loss per share:**

From continuing operations	(1.84)	(0.67)
Total basic loss per share	(1.84)	(0.67)

The Company incurred a loss for the year and the diluted earnings per share is the same as the basic earnings per share.

**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:

	<b>2007</b> <b>\$</b>	<b>2006</b> <b>\$</b>
Loss (a)	(759,311)	(182,502)
	<b>2007</b> <b>No.</b>	<b>2006</b> <b>No.</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,370,883	27,063,395

(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:

	<b>2007</b> <b>\$</b>	<b>2006</b> <b>\$</b>
Net loss	(759,311)	(182,502)
Other	-	-
Earnings used in the calculation of basic EPS	(759,311)	(182,502)

**22. COMMITMENTS FOR EXPENDITURE****(a) Capital expenditure commitments**

There are no capital expenditure commitments.

**(b) Lease commitments**

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

**Non-cancellable operating lease payments**

Within one year	95,891	16,027
Later than one year but not later than five years	420,611	-
Later than 5 years	-	-
	516,502	16,027

## NOTES TO THE FINANCIAL STATEMENTS (cont...)

	2007 \$	2006 \$
<b>22. COMMITMENTS FOR EXPENDITURE (cont...)</b>		
<b>Finance leases</b>		
Finance leases relate to a motor vehicle with a lease term of 2 years.		
Within one year	26,006	-
Later than one year but not later than five years	17,338	-
Later than 5 years	-	-
Minimum lease payments	43,344	-
Less: future finance changes	(3,688)	-
Present value of minimum lease payments	39,656	-
Included in the financial statements as: (note 14)		
Current	22,972	-
Non-current	16,684	-
	39,656	-
<b>(c) Other expenditure commitments</b>		
Exploration expenditure		
Within one year	478,190	482,500
Later than one year but not later than five years	578,962	543,900
Later than 5 years	-	-
	1,057,152	1,026,400

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 balance sheet 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.

**23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

In the opinion of the Directors, there are no contingent liabilities as at 30 June 2007 and none were incurred in the interval between the year end and the date of this financial report.

**24. SEGMENT INFORMATION**

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

**25. 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**

Details of equity interests in jointly controlled entities are disclosed in note 13.

**(b) Key management personnel remuneration**

Details of key management personnel remuneration are disclosed in note 7 to the financial statements.

	2007 \$	2006 \$
<b>25. RELATED PARTY DISCLOSURES (cont...)</b>		
<b>(c) Loan disclosures</b>		
Loans from specified and related entities:		
Balance at the beginning of the financial year	-	132,575
Write-off		(132,575)
Balance at end of the financial year	-	-
Number in group	-	3

**(d) Key management personnel equity holdings****Fully paid ordinary shares of Talisman Mining Ltd**

	Balance at 1 July	Granted as remuneration	Received on exercise of options	Net other change	Balance at 30 June
Directors	No.	No.	No.	No.	No.
<b>2007</b>					
Ian Macpherson	1,800,000	-	-	-	1,800,000
Michael Hannington	300,000	-	-	-	300,000
Steven Elliott	5,000,002	-	-	100,000	5,100,002
	7,100,002	-	-	100,000	7,200,002
<b>2006</b>					
Ian Macpherson	400,000	-	-	1,400,000	1,800,000
Michael Hannington	-	-	-	300,000	300,000
Steven Elliott	6,000,002	-	-	(1,000,000)	5,000,002
Anthony Kiernan (i)	400,000	-	-	(400,000)	-
Stephen Denn (i)	1,000,000	-	-	(1,000,000)	-
	7,800,002	-	-	(700,000)	7,100,002

(i) Resigned 5 July 2005.

**Executive share options of Talisman Mining Ltd**

	Balance at 1 July	Granted as remuneration	Exercised	Net other change	Balance at 30 June	Balance vested at 30 June	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>2007</b>									
Ian Macpherson	-	1,000,000	-	600,001	1,600,001	1,600,001	1,000,000	600,001	1,600,001
Michael Hannington	-	750,000	-	100,000	850,000	850,000	750,000	100,000	850,000
Steven Elliott	3,900,000	1,000,000	-	1,666,668	6,566,668	6,566,668	1,000,000	5,566,668	2,666,668
	3,900,000	2,750,000	-	2,366,669	9,016,669	9,016,669	2,750,000	6,266,669	5,116,669
<b>2006</b>									
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 (i)	200,000	-	-	(200,000)	-	-	-	-	-
Stephen Denn (i)	500,000	-	-	(500,000)	-	-	-	-	-
	3,900,000	-	-	-	3,900,000	-	-	3,900,000	-

(i) Resigned 5 July 2005

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

**NOTES TO THE FINANCIAL STATEMENTS (cont...)**

	2007 \$	2006 \$
<b>25. RELATED PARTY DISCLOSURES (cont...)</b>		
<b>(e) Other transactions with specified Directors</b>		
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 in relation to loans from Stephenn Elliott and his personally-related entities	-	132,575
Total recognised as revenue	-	132,575
Company secretarial and accounting expenses payable to entities associated with Ian Macpherson	125,233	90,856
Total recognised as expenses	125,233	90,856
Total liabilities arising from transactions other than remuneration with specified Directors or their personally-related entities as at reporting date:		
Current	-	17,552
	-	17,552

**26. SUBSEQUENT EVENTS**

On 10 and 11 July 2007, 3,010,714 fully paid ordinary shares and 1,003,567 free attaching options exercisable at 20 cents each expiring 31 December 2010 were issued pursuant to a share placement made prior to 30 June 2007. Proceeds from the issue totalled \$421,500.

On 4 September 2007, the Company announced the successful completion of the \$2.1 million share placement with the issue of the remainder 11,989,280 fully paid ordinary shares at 14 cents (total: \$1,678,499) and 3,996,404 free attaching options exercisable at 20 cents each expiring 31 December 2010. The successful completion of the share placement by the manager, RM Capital will result in the issue of 3,000,000 new options exercisable at 20 cents each expiring 31 December 2010. At the date of this report, these options have not yet been issued.

The Company issued a further 606,665 fully paid ordinary shares on 2 July 2007 as part settlement of drilling costs. In addition, 550,000 unlisted options exercisable at 25 cents each expiring 31 December 2010 were issued on 3 September 2007 under the Employee Share Option Plan.

There has not been any matter or circumstance other than that stated above or referred to in the financial statement 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.

**27. NOTES TO THE CASH FLOW STATEMENT**

	2007 \$	2006 \$
<b>(a) Reconciliation of cash and cash equivalents</b>		
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	667,310	1,361,687
	667,310	1,361,687
<b>(b) Non-cash financing and investing activities</b>		
Shares to be issued in part settlement of drilling costs	121,333	
Equity settled share-based payment in consideration of share placement fee	30,797	
Issue of shares to acquire tenements	175,000	-
Acquisition of motor vehicle by means of finance lease	42,914	-
	370,044	-

	2007 \$	2006 \$
<b>27. NOTES TO THE CASH FLOW STATEMENT (cont...)</b>		
<b>(c) Reconciliation of loss for the year to net cash flows from operating activities</b>		
Loss for the year	(759,311)	(182,502)
Debt forgiven	-	(132,575)
Depreciation of non-current assets	18,403	7,051
Equity settled share-based payment	348,339	-
Interest received	-	(61,033)
(Increase)/decrease in assets:		
Trade and other receivables	(3,968)	(44,394)
Increase/(decrease) in liabilities:		
Current trade and other payables	(30,909)	152,159
Current provisions	19,672	9,488
Net cash used in operating activities	(407,774)	(251,806)

## 28. 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 3 to the financial statements.

### (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 2007:

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates			Non interest bearing	Total
			Less than 1 year	1-5 years	More than 5 years		
2007	%	\$	\$	\$	\$	\$	
<b>Financial assets:</b>							
Cash and cash equivalents	4.3	653,456	10,000	-	-	3,854	667,310
Other receivables		-	-	-	-	38,708	38,708
		653,456	10,000	-	-	42,562	706,018
<b>Financial liabilities:</b>							
Trade and other payables		-	-	-	-	141,050	141,050
Lease liabilities	10.2	-	22,972	16,684	-	-	39,656
		-	22,972	16,684	-	141,050	180,706



## NOTES TO THE FINANCIAL STATEMENTS (cont...)

## 28. FINANCIAL INSTRUMENTS (cont...)

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 \$	Fixed maturity dates			Non interest bearing \$	Total \$
			Less than 1 year \$	1-5 years \$	More than 5 years \$		
<b>Financial assets:</b>							
Cash and cash equivalents	5.0	1,360,171	-	-	-	1,516	1,361,687
Other receivables		-	-	-	-	51,573	51,573
		1,360,171	-	-	-	53,089	1,413,260
<b>Financial liabilities:</b>							
Trade and other payables		-	-	-	-	186,328	186,328
		-	-	-	-	186,328	186,328

**(e) 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.

**(f) 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.

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

**(g) 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.

## ADDITIONAL SECURITIES EXCHANGE INFORMATION

AS AT 30 JUNE 2007

### I. Shareholdings

#### a. Distribution of Shareholders Number

Category (size of Holding)	Ordinary shares	Number of holders
1 – 1,000	135	8
1,001 – 5,000	161,280	47
5,001 – 10,000	1,344,840	140
10,001 – 100,000	13,220,355	303
100,001 – and over	45,778,055	118
<b>Total shareholding</b>	<b>60,504,665</b>	<b>616</b>

b. The number of shareholdings held in less than marketable parcels is 10 given a share value of 37 cents per share.

#### c. Voting Rights

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

Ordinary shares

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

#### d. 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Capital
1. Arcaro Holdings Pty Ltd	4,590,001	7.6
2. Metalmite Pty Ltd	1,800,000	3.0
3. Redcode Pty Ltd	1,800,000	3.0
4. Bitutti Pty Ltd	1,700,000	2.8
5. Mr Graham G Walker & Mrs Thelma J Walker	1,595,631	2.6
6. Mr Graham G Walker & Mrs Thelma J Walker <Walker Super Fund A/C>	1,525,000	2.5
7. Goldbay Limited	1,500,000	2.5
8. Mr Paul R Oost <Oost Super Fund A/C>	1,262,600	2.1
9. Mr Thomas R G Sutherland	1,110,000	1.8
10. FATS Pty Ltd	1,000,000	1.7
11. Mr Graham G Walker & Mrs Thelma J Walker	1,000,000	1.7
12. Mr Christopher M Edwards	1,000,000	1.7
13. Mr Ian K Macpeherson	800,000	1.3
14. Twynam Agricultural Group Pty Ltd	704,655	1.2
15. Orbit Drilling Pty Ltd	606,665	1.0
16. Proto Resources & Investments Ltd	600,000	1.0
17. Nor-west Constructions Pty Ltd	550,000	0.9
18. Fogbell Nominees Pty Ltd	542,369	0.9
19. Capital Enterprises (WA) Pty Ltd <J R Wilson Super Fund A/C>	530,000	0.9
20. Graham G Walker & Thelma J Walker <Walker Super Fund A/C>	500,000	0.8
	<b>24,716,921</b>	<b>40.9</b>

e. Names of substantial shareholders listed in the holding company's register as at 9 October 2007.

	Number of Shares Held
Mr Steven Elliott	5,100,002
Mr Graham G Walker	4,620,631

#### f. Distribution of Option holders

Category (size of Holding)	Listed Options	Number of holders
1 – 1,000	2,845	4
1,001 – 5,000	231,718	66
5,001 – 10,000	283,010	35
10,001 – 100,000	6,360,384	144
100,001 – and over	18,754,682	44
<b>Total</b>	<b>25,632,639</b>	<b>293</b>

#### Voting Rights

Listed options

— The options have no voting rights.

— The options are exercisable at 20 cents each on or before 31 December 2010.

## ADDITIONAL SECURITIES EXCHANGE INFORMATION

AS AT 30 JUNE 2007 (cont...)

### 20 Largest Optionholders — Listed options

Name	Number of listed options held	% Held of listed Options
1. RM Capital Pty Ltd	3,000,000	11.7
2. Hawera Pty Ltd <The Bailey Family A/C>	2,383,333	9.3
3. Arcaro Holdings Pty Ltd	1,530,001	6.0
4. Mount Street Investments Pty Ltd <The MJ Blake S/F A/C>	1,200,000	4.7
5. Redcode Pty Ltd	1,150,000	4.5
6. Mr Graham G Walker & Mrs Thelma J Walker <Walker Super Fund A/C>	808,333	3.2
7. Guina Nominees Pty Ltd <Byass Super Fund A/C>	666,666	2.6
8. Mr Michael D Grubisa & Mrs Lynette J Grubisa <Super A/C>	500,000	2.0
9. Mr Graham G Walker & Mrs Thelma J Walker	500,000	2.0
10. Mr Ian B Murie & Mrs Tania Murie <IB & T Murie Super Fund A/C>	366,666	1.4
11. Mr Paul R Oost <Oost Super Fund A/C>	345,001	1.3
12. Northerly Investments Pty Ltd	340,000	1.3
13. FATS Pty Ltd	333,334	1.3
14. Mr Graham G Walker & Mrs Thelma J Walker	333,334	1.3
15. Barclay Wells Pty Ltd	330,000	1.3
16. Murchison Resources Limited	300,000	1.2
17. Celebrity Agents Pte Ltd	300,000	1.2
18. Mr Ian K Macpherson	266,667	1.0
19. Mr Andrew K B Mortimer	261,667	1.0
20. Mr Thomas R G Sutherland	225,000	0.9
	15,140,002	59.1

2. The name of the company secretary is Darren Crawte.

3. The address of the registered office in Australia is Level 2, 47 Colin Street, West Perth WA 6005.  
The principle place of business is Ground Level, 6 Centro Avenue, Subiaco, WA 6008. Telephone +61 8 9380 4230

#### 4. Registers of securities are held at the following addresses

Western Australia      Advanced Share Registry Services  
110 Stirling Highway, Nedlands WA 6009

#### 5. Stock Exchange Listing

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

#### 6. Unquoted Securities

2008 Options (exercisable at 25 cents on or before 30 June 2008)

Category (size of Holding)	2008 Options	Number of holders
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 – and over	3,900,000	1
Total	3,900,000	1

2010 Options (exercisable at 25 cents on or before 31 December 2010)

Category (size of Holding)	2010 Options	Number of holders
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	50,000	1
100,001 – and over	3,250,000	4
Total	3,300,000	5

All options have no voting rights





**TALISMAN MINING LTD**

Ground Level  
6 Centro Avenue  
Subiaco WA 6008  
Tel +61 8 9380 4230  
Fax +61 8 9382 8200  
[www.talismanmining.com.au](http://www.talismanmining.com.au)